

A COMPARATIVE STUDY ON THE CREDIT CARD BUSINESS IN

HONG KONG AND PEOPLE'S REPUBLIC OF CHINA

by

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EXECUTIVE SUMMARY

Ever since the appearance of the first credit card in 1924, credit card has becoming a very popular means of payment. In fact, according to VISA and MasterCard International, in 1989, the annual growth rate in VISA and MasterCard spending were 27% and 18% respectively.

From a comprehensive review on the historical development of card business in Hong Kong and China, it is expected that the running of card business will be different in both areas.

Through a study of literature and the conduction of an exploratory research which consisted of a questionnaires survey and interviews, an investigation and comparison on the marketing strategies, operation systems, strength, weakness, opportunities and threats of credit card business in Hong Kong and China were made and the major differences were analyzed.

In terms of the product strategy, the credit card issued in Hong Kong is a card with "credit" meaning that cardholder can use his credit line in advance and pays later. But the card issued in China is a deposit card. Cardholder should pay first before he uses his credit line. Because of the problem of foreign exchange control, cards issued by China are only Renminbi card and are only accepted

in China but not internationally.

In terms of the pricing strategy, Bank of China imposed small or even no charges on most of the services provided whereas, banks in Hong Kong charge rather high, especially on cash advance services and interest charges for late payment. It is expected that since the objective of banks in China is to absorb deposits through card issuance, they are more willing to provide supportive free services.

In terms of the promotion strategy, due to larger advertising budget, keener competition and maturity of the product, more combinations of promotion mix are adopted by banks in Hong Kong than in China. On top of issuance of Visa and MasterCard, banks in Hong Kong also try to find new market niches by issuance of affinity cards jointly with big famous shops.

In terms of distribution strategy, Bank of China utilizes its vast branch network for displaying of application forms while banks in Hong Kong not only use bank network but other channels like ferries and department stores as well.

Huge potentials, recognition and support from top management, easy to obtain assistance from international organisations and better credit control are the favorable factors that help the development of the credit card business in China. On the other hand, control in the supply of foreign exchange, large geographic coverage which gives rise to problem of coordination and increased competition are factors unfavorable to its development.

In Hong Kong, nevertheless, wider acceptance of the credit card concept, availability of experienced personnel, technological advancement, tendency towards co-operation among local issuers as well as the opportunities of huge acquiring business in China are all factors attributed to the success of the credit card business in Hong Kong.

The possibility that China will develop its own acquiring business and increasing problems of fraudulent card usage are negative factors affecting the Hong Kong credit card business.

In addition, to give a clearer picture, factors that accounted for such differences are illustrated with a modified McGuigan's model.

Finally, by consolidations of the research results, future development of the credit card business in Hong Kong and China are forecasted.

ACKNOWLEDGEMENT

I would like to express my gratitude to the following persons for their kindness in providing invaluable information to the accomplishment of this study :

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Nanyang Commercial Bank Limited

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Most important of all, many thanks are presented to Miss Stella So, Lecturer of Marketing Department of The Chinese University of Hong Kong, for giving advice and support to the conduction of this study.

CHAPTER I

INTRODUCTION

Ever since the introduction of the first 'plastic' credit card in 1924 by General Petroleum Corporation of California (now Mobil Oil), credit card is becoming one of the most popular means of payment today. However, the development of credit card business is not at the same pace in different countries. It was originated in U.S.A. in 1950's and entered the Hong Kong market in 1970's. In People's Republic of China, it was only until late 1980's that the first credit card was issued. In this study, the writer will explore such differences and similarities and give an analysis to the factors that caused such difference in market performance.

The objective of this study is to provide a general picture of the operations and marketing strategies of Hong Kong and China with regard to their credit card business. It is not the objective of the writer to go into details on a particularly topic such as advertising, therefore the significance of this study lies in that it can be served as framework for others to follow, especially in view of the lack of consolidation of information concerning credit card

business in China. The discussion of credit card will confine to VISA and MasterCard only. To begin with, it is better to have an understanding to some background information such as operation system of credit card and role of VISA and MasterCard International in general since these may give substantial influence to the decision makings of credit card banks.

Operation of Credit Card System

Ways of Running Credit Card Business

There are basically 3 ways of running credit card business in the world:

MONOPOLY

Under this strategy, a credit card company (or a bank) will issue its own credit card, develop its own merchant acceptance outlets as well as set up its own electronic data transfer network for billing or credit information checking. A typical example is American Express Card. The Card is being run by American Express Travel and Related Service with the head office in U.S.A. but setting up regional offices in every parts of the world to market the cards.

The advantages of this strategy are:

- * The bank will have its own identity and own name. If the card is successful, it is the bank that gets all of the credits.

- * The autonomy is great. Since the bank runs its own card, there will not be any 'direct' competitors, i.e. no one can issue the exactly same card in the market. This gives flexibility for bank to formulate its own pricing and promotion strategies. There is no such restrictions regarding to design of the card, rate of commission that should be received from merchant for settlement of the sales vouchers.

However, there are also disadvantages:

- * Huge investment is required. Since the bank has to set up its own merchant, credit checking and billing network, it will be costly especially when this involves the linkage of the communication systems in different parts of the world.
- * 'Unity means strength'. It is difficult for the card issued by one bank be as widely recognised by worldwide merchants as the cards issued by banks in different parts of the world. In areas where no regional office is set up, the card will not be recognised there.

FRANCHISE

Under this strategy, a credit card company will sell the right of running its credit card to other financial institutions all over the world. But the franchise right will usually be granted to only one financial institution in one area to avoid unhealthy competition. A typical example is Diners Club which is operated by different banks in dif-

ferent countries. In Hong Kong, previously, the card was issued by Chartered Bank and in recent years, it is run by Citicorp. J.C.B. Card is also another example.

The advantages of the strategy are:

- * Direct competition can be minimised. By granting franchise to only one financial institution, the issuing bank can maintain high autonomy in running its own program, no strong direct competitive force exists in the market.
- * The acceptance network of the card will be wide. By having banks issuing cards carrying same identity in different countries, the cards will be accepted and recognised by more merchants. It is not difficult to sell a franchise to one more country but will be very complicated to set up a regional office in one more country to run card business.
- * Set up cost can be reduced. The card can be accepted internationally but issuing bank does not need to invest a lot to link up with the communication network all over the world. It is the company that sells the franchise to build up such international computer systems.

Nevertheless, there are still disadvantages to this strategy:

- * The bank does not gain much goodwill from running the card successfully. In the example of Diners Club, since the product itself carries a product name i.e. Diners Card, no matter how popular is the card, it is the name

of 'Diners' (or Diners Club International Inc.) but not the name of the issuing institutions that are well known by the public.

- * There may be some restrictions in running the card. For instance, a standard design of card face may be required, credit limit below certain level would be forbidden and so on.

MEMBERSHIP OF INTERNATIONAL ORGANISATION

Under this strategy, financial institutions may join international Inc. as membership. In such a way, members have the rights to use the trademark of Visa or MasterCard to issue credit cards as well as clearing credit card vouchers submitted by merchants. In return, members should have to pay certain fees to this organisations base on the volume of their business quarterly.

The advantages of adopting such strategy are:

- * The financial institutions can gain benefits from the popularity of the trademark, hence save their efforts in promotion of the card name. In addition, since banks are responsible for promotion of their card products in their own country, cards issued by banks in other country with same trademark are therefore accepted and recognised by lots of merchants all over the world. This gives the biggest attraction to banks that adopt this strategy.
- * Extensive system network and supportive services are provided by the central organisations. Through the

international communication and computer networks established by Visa/MasterCard International, all issuing banks can contact with each other to verify the credit situation of each card being accepted. Besides, if a card is stopped, the information may be passed to all other issuing banks through international computer network to prevent a 'bad-list' card from using elsewhere.

However, there are also disadvantages to this strategy:

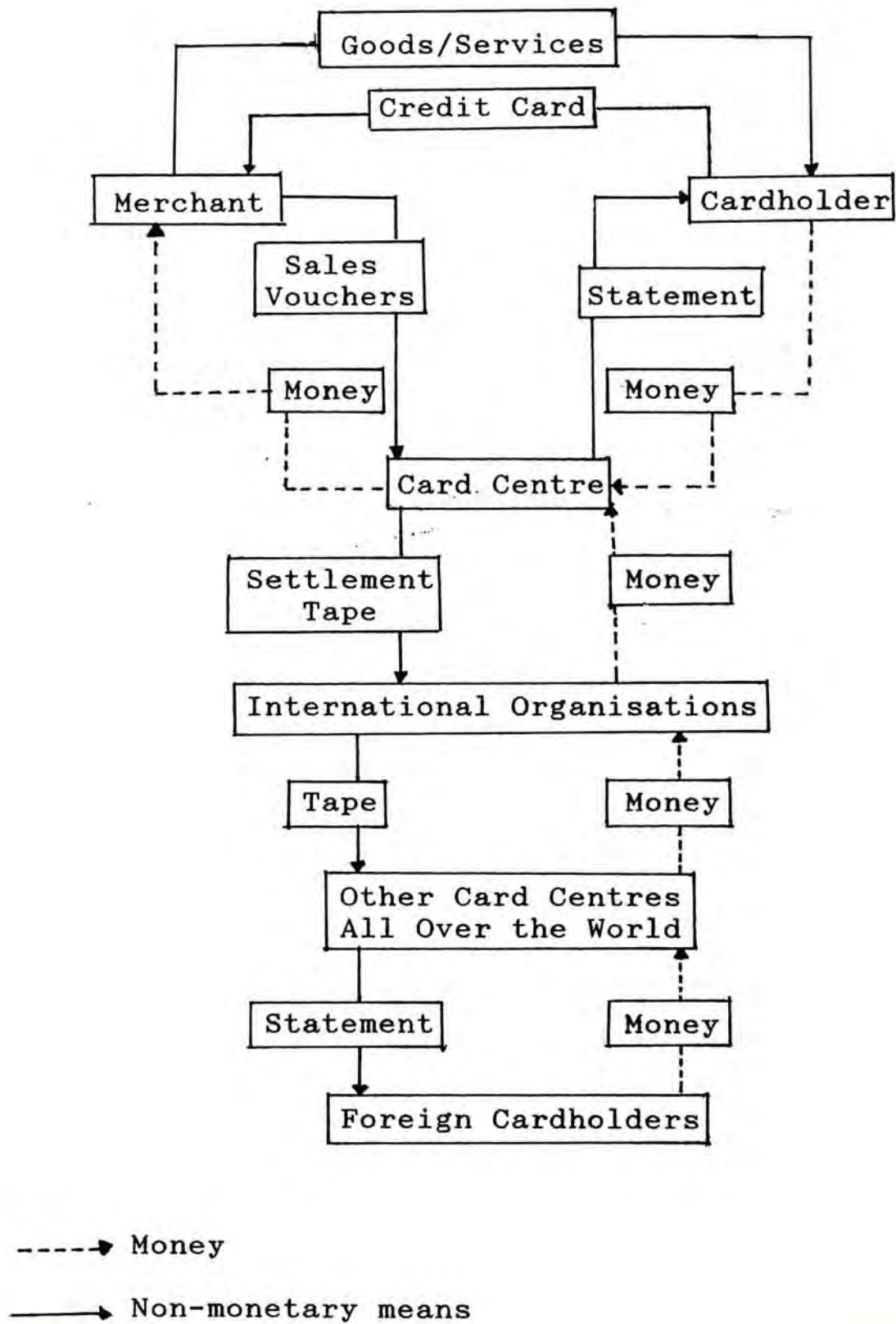
- * Competition is keen. As the organisation will accept more than one banks as members in one area, competition will be keen with each other fighting for business of the same credit card. In a small place as Hong Kong, there are as many as 13 banks issuing Visa cards. This may lead to unhealthy phenomenon such as a price war with regard to annual fee or merchant discount rate and lowering of application requirement.
- * Too many restrictions. The international organisations have set up a book of operation regulations and rules to govern the activities of each member bank which cover the design of card face, the currency exchange rate of settlement, the authorisation procedure and so on. Hence, banks may be bound to follow with only limited degree of freedom to market their products.
- * The banks have to pay varieties of service fees to the international organisations for enjoying their facilities.

For example, for each settlement or authorisation transaction that passes through the international network system of Visa or MasterCard International Inc., a percentage will be deducted by the latter as service charge. In addition to this, member banks should have the preparation to accept adjustment of services charges by such organisations from time to time.

Flow of Credit Card Operation

The basic concept of credit card operation as a means of payment can be illustrated by the following diagram:

Credit Card Operation Flow



In the system, four parties are involved, namely, the merchants accepting Visa/MasterCard as payment means, the Cardholder, the card issuing bank and Visa/MasterCard International Inc.

- * The merchant accepts card and gives out goods or services.
- * Card centres receive sales vouchers from merchants and reimburses them on behalf of its cardholders. It bills the latter subsequently through a monthly statement with a grace period for payment.
- * Should it happen be a transaction from foreign cardholder, the information will be passed to Visa/MasterCard International for settlement. The latter will then pass the same information to related card issuers and will reimburse the card centre on behalf of other issuing banks.

Income Sources

The sources of income of a card centre are:

- * annual fee from card issuance;
- * discount fee from clearing of credit card sales vouchers for merchants and;
- * handling fee from services provided to cardholders, merchants or other issuing banks.

Organisation of a Credit Card Company

Usually, a card section/company is composed of the

following divisions and responsibilities:

* Card Approval

Information collection, credit checking, card approval.

* Customer Service

Card embossing, card delivery, enquiry handling.

* Accounting

Cardholder billing, merchant payment and company's budget control.

* Marketing

Cardholder marketing, merchant marketing.

* Merchant Service

Merchant education, training and support.

* Credit Control

Demand for payment, bad debt collection, overspending control.

* Security

Prevention of fraudulent uses of cards.

* E.D.P.

Software development and hardware maintenance.

Role of Visa and MasterCard International Inc.

There is no doubt that following the expansion of Visa and MasterCard business in the world, the role of Visa and MasterCard International is becoming more important. As a matter of fact, Visa and MasterCard International are competitors but both play the role of central organisations

in providing supportive services to members:

Promotion of the Trademark Usage

Every member is entitled to the use of the Visa/MasterCard trademark to issue card or to develop merchant network. When members engage in the latter part of business, it is called 'acquiring business' meaning that members are free to sign up merchants in their region to accept and submit sales vouchers to them. They can earn commission from merchants through settlement of those vouchers for the merchants. Of course, the promotion of the worldwide recognition of the trademark is the job of Visa/MasterCard International.

Provision of a Settlement, Authorisation and Hot Card System

Since there are almost 20,000 financial institutions all over the world engaging in card issuance, a central settlement and clearing system is required to ensure that the acquiring members could be reimbursed and compensated by the issuing banks and issuing banks in turn, could be guaranteed to capture and bill their cardholders for every transaction. Through the provision of a worldwide on-line computer networking by the international organisations, settlement among members can be done in a speedy way by electronic data interchange.

To ensure a normal card can be accepted all over the world and to prohibit an abnormal card from being accepted,

an on-line credit checking system is vital. This responsibility falls on Visa/MasterCard International. With the provision of an on-line authorisation and hot card system to members, member banks are able to on-line input their newly cancelled or black-listed card accounts into the system to prevent them from being accepted all over the world.

Act as a Judge for Disputes

In case there are disputes between member banks, Visa and MasterCard International also act as a final juridical body.

To conclude this Chapter, it can be seen that the operation system of credit card business and role of VISA and MasterCard International Inc. both give significant impacts to credit card banks. Whether the bank chooses to run the business in the form of monopoly, franchise or membership will greatly influence its subsequent operations. The duration of an operation flow will also influence the income, credit risk as well as organisation of the banks. In addition, the amount of marketing effort devoted by VISA and MasterCard International, the reliability of the system network developed by them are also greatly affect the card business of each individual member bank.

CHAPTER II

BUSINESS REVIEW

To have a clearer picture about what the banks in Hong Kong and China are doing in their credit card business, a historical review on the development of credit card in the world, in Hong Kong and China would be necessary.

Historical Development of VISA and MasterCard

Appendix I illustrates the development of VISA and MasterCard in chronological order. The trend of development can be summarized as follows:

- (1) It was the issuance of private label card that marked the beginning of credit card. The characteristics of such cards were that they were issued by private companies but not by banks, to their selected customers, but not to the general public and were accepted in their own shops only, but not other merchants, with deferred payment facilities. The first plastic credit card issued by an oil company in U.S.A. in 1924 was the example.
- (2) Later, bank cards were issued to replace the private label cards. The characteristics of bank cards were that cards were issued to clients' of the banks and

were accepted by selected merchants. Credit was offered to cardholders without extended payments and no annual fees or financial fees were charged. Banks only earned discount fees deducted from merchants' credit card sales volumes. The first bank card issued by Franklin National Bank in 1951 was the example.

- (3) To further expand the business, in 1966, Bank of America started to sell licences to banks to issue BankAmericard. This program not only extended the acceptance of credit card to a national basis but also started the creation of a brand identity of credit card, that is, the BankAmericard. Before that, banks issued cards with individual design and brand name, there was no common identity.
- (4) The formation of Interbank Card Association in 1966 laid the foundation for the formation of nowadays' MasterCard International Inc. At that time several banks formed an interchange association to issue individual cards with a lower case 'i' in the corner as the common identity to facilitate merchant acceptance. Later, the association even acquired the program name of MasterCharge. With the joint effort to extend merchant network as well as to promote the common identity of the symbol i and brand name of MasterCharge, the cards issued under this association were accepted widely and therefore were more advantageous

over others.

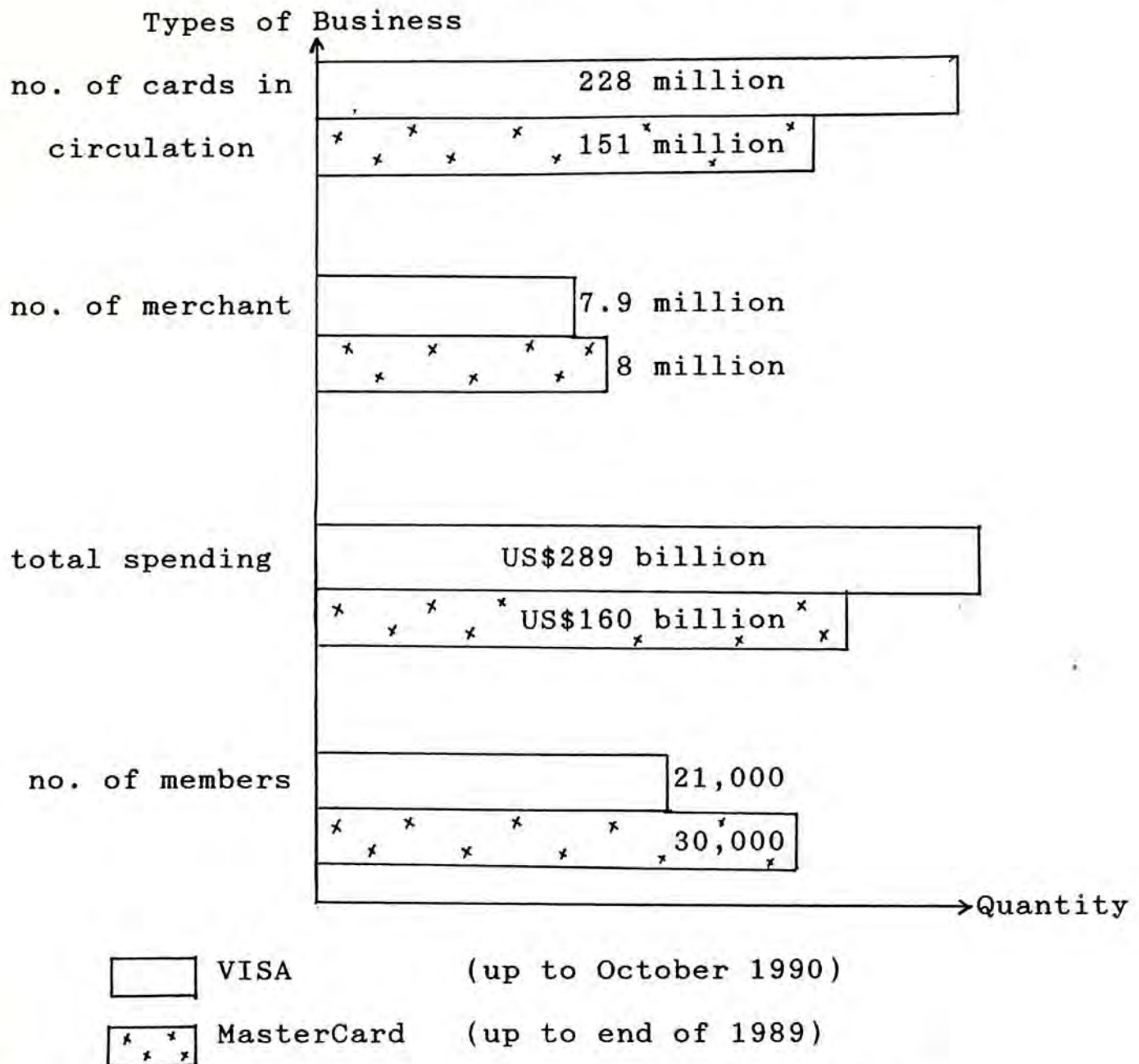
- (5) In 1970, the former VISA International, the National BankAmericard Incorporated (NBI) was established by banks to promote the BankAmericard program. Members agreed to comply with laws and funded NBI with fees based on sales volume. At that time, bank in U.S.A. joined either NBI to issue BankAmericard or Interbank Card Association to issue MasterCharge. These two organisations were competing with each other from that time to now.
- (6) In 1977, NBI was renamed VISA U.S.A. and name of BankAmericard was changed to VISA. MasterCharge also changed the name to MasterCard in 1979 to indicate it was no longer a charge card but a credit card.
- (7) In 1980's, both VISA and MasterCard International Inc. had done a lot to improve their services which included introduction of new products such as gold card, business card, affinity card and introduction of new services such as automated cash disbursement service and global ATM network services.
- (8) The business of VISA and MasterCard expanded very fast, up to October of 1990, over 21,000 financial institutions have joined VISA International as members and altogether they have issued more than 228 million VISA cards which are widely accepted by 7.9 million merchants in 190 countries. VISA cardholders can now

obtain cash through 302,000 branches of VISA member banks and 52,000 ATMs in 40 countries. The worldwide payment volume of VISA exceeds US\$289 billion a year and is currently growing 27% a year.

- (9) When turning to the world market of MasterCard, the business is also booming. At the end of 1989, there are over 30,000 financial institutions issuing more than 151 million MasterCard cards which are widely accepted by 8 million merchants in 170 countries around the world. The cash advance volume surged 19% in 1989 at a record US\$23 billion and the overall consumer spending volume reached as high as to US\$160 billion.

The following diagram summarized the different performances of VISA and MasterCard International Inc.:

Comparison of VISA and MasterCard Business



Development of Credit Card Business in Hong Kong

Appendix II illustrates stages of development of the credit card business in Hong Kong. It can be seen that the business was introduced into Hong Kong only in 1970's, two decades behind the development of which in the world market. Such delay in development can be attributed by following reasons:

- (1) System support from VISA and MasterCard International

was insufficient before 1970's. At that time, communication with other issuers or international organisation was only through telex.

- (2) Living standard was not high. Large part of income of Hong Kong people was spent on necessity items, not so much surplus money was spent on luxurious products. In fact, 1960's was the period for Hong Kong to establish its economy through manufacturing industry after the serious influx of refugees.
- (3) Most Chinese still insist not to spend money beforehand. They believe that credit card will foster excess spending on unnecessary items.

The development trend can be summarized as follows:

- (1) Bank of America was also the first bank in Hong Kong to start the VISA card business but it was jointly operated with Bank of East Asia, with the latter responsible for development of acquiring business.
- (2) Before joining as members of VISA or MasterCard, banks usually issued their local cards (which means they are accepted in local areas only) to gain experience. Examples are OTB card issued by OTB Bank in 1975 and Federal Card issued by Nanyang Commercial Bank in 1981.
- (3) To maximize the utilization of the resources, 14 member banks of Bank of China Group in Hong Kong issued their VISA and MasterCard through Nanyang Credit Card Company Limited which played the role of central processing

centre.

- (4) Citibank took over Bank of America in 1987 and re-launched the VISA Card with aggressive marketing campaign. Bank of East Asia was forced to set up its own card centre.
- (5) There was a tendency for banks to issue dual cards to fully utilize the resources. At the end of 1990, there are altogether 11 banks which joined both VISA and MasterCard International as members with BNP issued only VISA Card and Belgian Bank, The Hong Kong Chinese Bank, JCG Finance Company and Security Pacific being members of MasterCard International only. Competition is therefore rather keen.
- (6) As the business was becoming more competitive in late 1980's, banks started to find niche to expand their business. Issuance of affinity card to specific market segment was therefore becoming popular. Examples are 'My Card' issued by IBA targeting at lady market and 'University Card' issued by The Hong Kong Chinese Bank targeting at university students. By focusing on a specific target segment, it was expected to be easier to build up the product identity and gained business.
- (7) It was estimated that up to end of 1989, there were about 1.56 million credit cards (including American Express and Diners Cards) held by 1,200,000 cardholders (that is, each cardholder got 1.3 cards on average).

Merchants which accepted VISA and MasterCard were estimated to be over 30,000.

Development of Credit Card Business in China

Credit Card business history was rather short in China, it was only until late 1980's that China issued its first credit card. In fact, the country started with merchant acquiring business in 1970's. Despite that MasterCard and VISA International limited member banks to run the business within their own areas, both allowed banks in Hong Kong to develop merchant acceptance network in China. Banks in Hong Kong therefore appointed Bank of China (BOC) as their agents to open VISA and MasterCard merchant network, capture sales slips and submit to them for processing. In return, BOC was reimbursed by a commission.

At that time, not so many merchants accepted cards, instead, cardholders obtained cash with the cards through banks in China to make purchase. Nowadays, with combined effort from banks in Hong Kong and China, more than 10,000 merchants locations are opened up.

Having got several years' experience in handling credit card business for banks in Hong Kong, BOC tried to issue its local credit card called 'Greatwall Card'. The business grew smoothly since BOC simply requested merchants that accepted VISA and MasterCard cards to accept Greatwall

Card as well.

However, there were still five-star hotels which refused acceptance of those local Greatwall Cards. To make its credit card more popular and to involve in the advanced financial payment means, BOC began to join MasterCard and VISA International in 1987 and 1988 respectively.

Due to restriction in the supply of foreign exchange, cards with two types of settlement currency are issued, namely, the Renminbi (RMB) MasterCard and Foreign Exchange (FX) MasterCard. RMB cards are issued to individuals, while FX cards are issued to corporate accounts which are able to obtain foreign exchange.

In late 1980's to early 1990's, more banks joined VISA and MasterCard International as members. The one with largest potential is said to be the Industrial and Commercial Bank of China (ICBC) which is supposed to be the world's largest bank in terms of customer (over 500 million accounts which represent 46% of China's population), branches (30,000 branches through China) and staff (more than 480,000 employees).*

Up to early 1991, there are six banks in China which are VISA and MasterCard members issuing more than 200,000 MasterCard cards accepted by over 4,000 merchants. It is therefore reasonable to expect that credit card business will become more competitive in China in the next few years.

Hence, it is obvious that the paces of development

of the card business are different in different areas.
Diagram 1 and 2 summarized the performance.

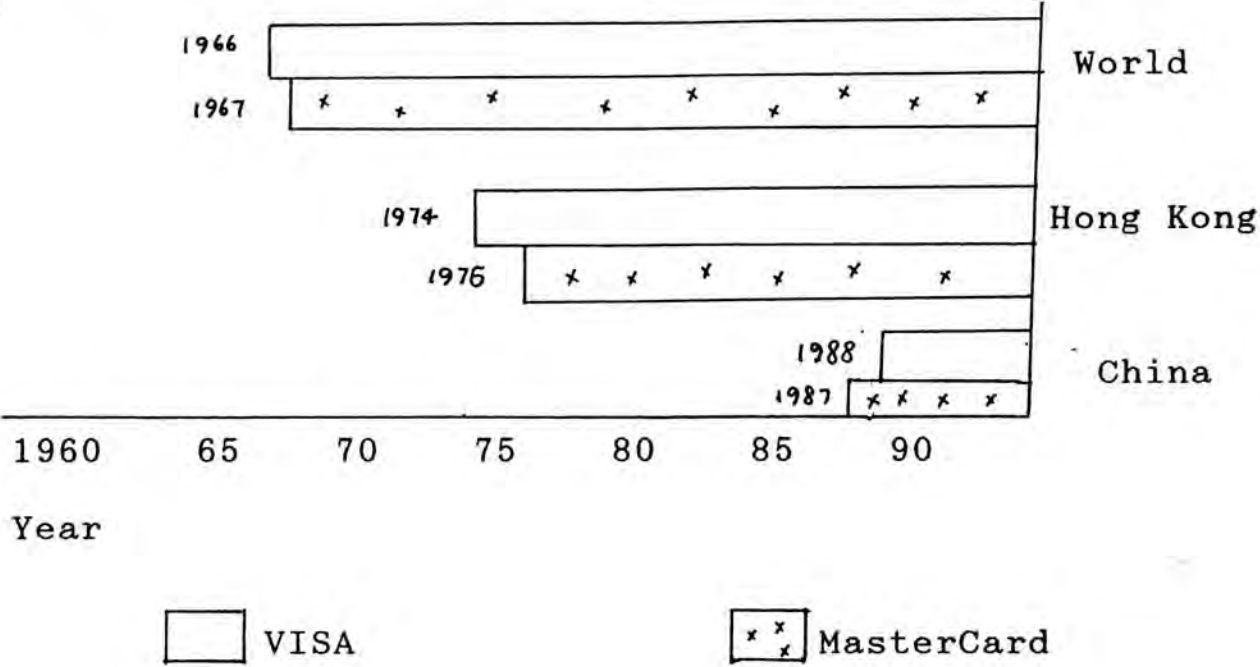


Diagram 1: Development of VISA and MasterCard in the world, Hong Kong and China

* Sources: Press release by VISA International Inc. in China, October, 1990

In addition to the above figures, it is expected that there may be great difference in the marketing strategies and operation systems adopted by banks in Hong Kong and China. The intention of the writer is to find out what such difference are and the factors attributed to such difference in the following Chapters.

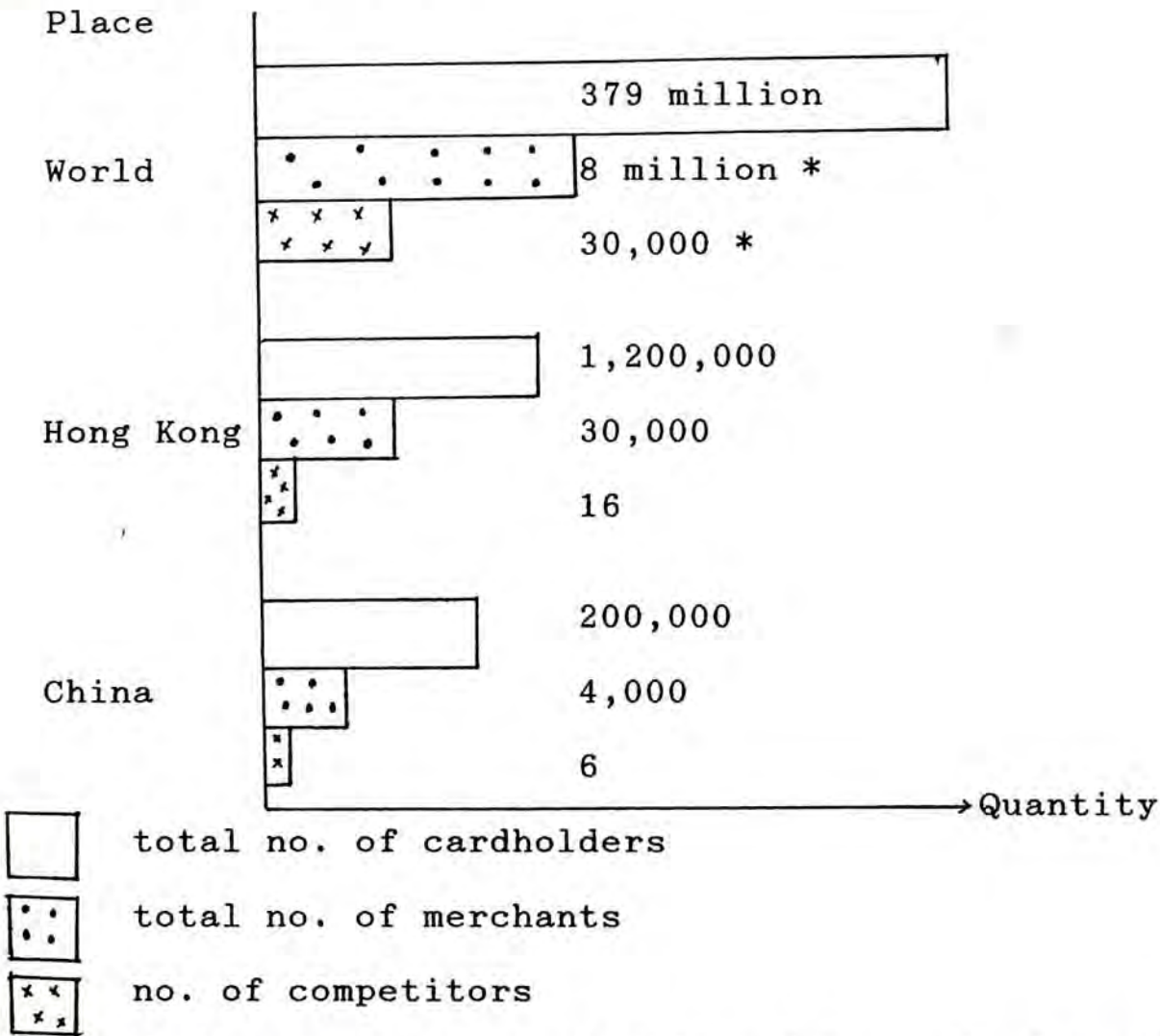


Diagram 2: Market Performance of VISA and MasterCard in the World, Hong Kong and China

* For ease of comparison, completed duplication of VISA and MasterCard merchants and membership is assumed.

CHAPTER III

OBJECTIVES AND METHODOLOGY

Hypothesis

Since credit card was a product originated from a capitalist country, China, being a country with the ideology of communism, is expected to run its credit card business rather differently.

Objectives

The main objective of this study is therefore to validate the above hypothesis through following means:

- (1) To investigate the marketing strategies and operation system adopted by banks in China to run their card business. The marketing strategies will cover the product, pricing, distribution as well as the promotion strategies whereas the operation system will include the internal procedures of credit approval, authorization, settlement and credit and security control. As mentioned before, since credit card history of China is rather short, such kind of information is unavailable from secondary research. The writer therefore tried to obtain such data through an exploratory research which composed of both questionnaire survey and in depth

interview.

- (2) Hong Kong, being a non-communist society, is chosen in this study for comparison purposes. The marketing strategies and operation system of banks in Hong Kong to run their card business are also illustrated and are compared with that adopted by banks in China. To give a clearer picture, SWOT analysis for card business in both areas will also be conducted. As the writer has been working in one of the credit card companies in Hong Kong, that is, Nanyang Credit Card Co Ltd for seven years, she got lots of information concerning credit card business in Hong Kong. Most of such information is inputted by her.
- (3) Factors that are attributed to such differences, if there are any, are analyzed by fitting into McGuigan's model which was designed to account for differences of market performance by different industries.

In addition to the main objective, there are two secondary objectives that the writer wants to achieve through this study:

First, despite lots of research work has been devoted in the area of credit card operation in general, few was found to cover that in China. In view of the growing expansion of such business in China, it is the intention of the writer to consolidate all such kind of information in this study. By covering the historical development, operating system and

marketing strategies of the business in general, it is hoped that this study can act as an information guide book to followers if they were to concentrate on studying of a particular topic such as advertising of credit card in China in future.

Second, following the approaching of 1997, the relationship between Hong Kong and China is becoming closer. By providing a clearer picture of credit card market in China through this study, the writer hopes to help bankers in Hong Kong to identify and locate the possible future card business opportunities in China.

Methodology

Literature Review

In order to find out the historical development in the world and in Hong Kong, marketing strategies and operation system of running card business by banks in Hong Kong, a comprehensive search on the literature including books, research paper, magazines, newspapers and journal was conducted.

Exploratory Research

Due to lack of secondary data on credit card business in China, an exploratory research was conducted to collect such information. The research was composed of two tools, namely questionnaire and in-depth interviews.

(a) Questionnaire

Questionnaire Design

Since the objective of the research is to discover the marketing strategies and operation system of credit card business in China, it was a qualitative research. Therefore, the questionnaire is rather lengthy and is designed to explore every facets of the business. It is divided into nine sections, namely:

I. Background Information

II. Operation

This part is subdivided into card application and approval, customer service, authorization, settlement, billing and bad debt collection.

III. Cardholder Marketing

IV. Merchant Marketing and Settlement

V. Security Control

VI. Developmental History

VII. SWOT Analysis (Strength, Weakness, Opportunities and threat)

VIII. Future Development

IX. Personal Data

A detailed questionnaire, one in English and one in Chinese, was attached in Appendix IV.

Sample Size

The questionnaire was translated into Chinese and was sent out by mail or by fax to following banks:

(1) Bank of China, Beijing

- (2) Bank of China, Guangzhou
- (3) Bank of China, Xiamen
- (4) Bank of China, Zhujiang
- (5) Bank of China, Shanghai
- (6) Industrial and Commercial Bank of China, Beijing

The above six banks are selected for several reasons: First, due to limited human resources, it is impossible for the writer to conduct a large scale research, hence only special banks are selected. Second, it is a qualitative research rather than a quantitative one, therefore the main concern of the writer is on the quality of answers rather than on the size of the chosen sample. Third, in-depth interview with personnel of BOC, head office reflected that the operation systems and marketing strategies by various branches of BOC should be similar and should follow the instruction of head office. Hence, a small sample is still regarded representative.

The Guangzhou, Shanghai and Beijing Branch are selected because they are the three largest cities open to foreigners. Zhujiang Branch currently is the bank that has issued the largest number of Greatwall MasterCard Cards. Xiamen Branch is a bank with average performance, just like other branches. Besides Bank of China, Industrial and Commercial Bank of China is also selected because the bank has been issuing a local card,

Peony Card for few years with outstanding results.

Nevertheless, only four out of the six banks did give feedback, they are the Beijing, Guangzhou, Xiamen Branch of BOC and ICBC.

The research findings will be analyzed and compared in next Chapter.

(b) Interview

It can be expected that questionnaire could help to obtain factual information but not opinions and comments. To avoid lack of such kind of information, in-depth telephone interviews are also conducted with following people:

Mr Qiao Guo Wei

Manager, Credit Card Division

Head Office, Bank of China

Mr Allan Tse

Chief Representative, Beijing

MasterCard International Inc.

Mr Yeung Chi Shing

Chief Representative, Beijing Office

Nanyang Commercial Bank Limited

The background and the relevance of these three people are outlined in Appendix V. The questions covered

during the interview are rather exploratory in nature with the objective to seek their personal comments, opinions and forecasts regarding the development of credit card business in China. Appendix VI exhibits list of the interviewing questions.

CHAPTER IV

RESEARCH FINDINGS AND ANALYSIS

Marketing Strategies on Credit Card Products Employed by Banks in Hong Kong and China

Product Strategy

RESEARCH RESULT :

From the questionnaires sent back by the four banks and past literature, the product strategies of banks in China and Hong Kong can be summed up in the following table:

	Hong Kong	China
Product Nature	Bank Card with <ul style="list-style-type: none">* credit line* an interest-free period for payment* partial or full payment alternative	Deposit Card with <ul style="list-style-type: none">* minimum deposit required* regular replenishment* overdraft charge for overdrawn
Product Features	<ul style="list-style-type: none">* accepted by 8 million merchants in 190 countries* can withdraw cash from over 20,000 financial institutions* more than 52,000 ATM worldwide provide cash disbursement service* can encode the bank	<ul style="list-style-type: none">* accepted by 4,000 MasterCard merchants in China only* can withdraw cash at 191 branches of BOC in China* limited ATM services* must be backed up by

	account into the credit card	a bank account
Product Line	<ul style="list-style-type: none"> * VISA and MasterCard * Gold, Ordinary card and Business card * Main and Supplementary card * Affinity card 	<ul style="list-style-type: none"> * MasterCard only * Company and Individual card * Main and Supplementary card
Brand Name	Federal-MasterCard Fortune-MasterCard	Greatwall MasterCard
Card Face Design	<ul style="list-style-type: none"> * The Hong Kong Bank Building (Hong Kong Bank) * Night scenery of Hong Kong (Standard Chartered Bank) * The Greatwall (Bank of China Group) 	The Greatwall

a. Product Nature

[Hong Kong]

- * The Visa and MasterCard issued by banks in Hong Kong is a bank card with various characteristics.
- * Firstly, it is a credit card. A credit line is granted to the applicant on an unsecured basis at the time a card is issued to him. The limit of such credit is dependent on the financial background and credit standing of the applicant. It is revolving in that if the cardholder makes payment, he can resume his credit limit at any point of the time. As the credit is granted by the bank on an unsecured basis, it is actually a kind of personal loan.

- * Secondly, usually cardholder will receive card statement once a month, he does not have to pay immediately. There is a 20-25-day period of grace between the date of the statement and the due date of payment. This grace period is interest-free.
- * Thirdly, cardholder has option to choose payment methods. He can either pay back in full within the interest-free period and thereby incur no interest charge or to pay back as little as the minimum amount required or any amount in between the minimum and the total amount outstanding, but interest will be charged. If no payment or payment less than the minimum requirement is received, an additional penalty charge will be levied. Cardholder can settle his bill monthly either by authorize the bank to debit his bank account directly or pay cash or cheque at the branches of the issuing bank. He may even mail a cheque to the bank. Therefore, cardholders need not be account holders of the issuing bank.

[China]

- * The MasterCard issued by banks in China is of completely different nature. It is a deposit card. The applicant for the card should open a special fixed deposit account with the card issuing bank. There is minimum deposit requirements for different types of card. The account will bear interest at the issuing bank's deposit interest rate. Every time the cardholder uses the card to make

purchases, issuing bank will pay the merchants for the cardholder by deducting the cardholder's deposit. No overdrawn is allowed and replenishment of the deposits should be made from time to time or an interest will be charged. If replenishment is not made within 15 days from the date of overdrawn, interest rate will be doubled. Hence, only bank account holder is eligible to apply for a MasterCard issued by that bank.

b. Product Features

[Hong Kong]

- * The Visa and MasterCard issued by banks in Hong Kong are widely accepted by over 8 million Visa/MasterCard merchants in 190 countries and territories of the world.
- * The cards can also be used to draw cash in case of emergency in almost 20,000 financial institutions all over the world including China, provided that the total amount drawn does not exceed the credit limit.
- * The Hong Kong Visa cardholders can also obtain cash through the 52,000 Visa Automatic Teller Machines in 40 countries. Thus cardholder is able to obtain cash even beyond normal banking hours.
- * The bank account of the card issuing bank can be encoded into the credit card. The card can be used as either a credit card or an ATM card. If it serves the latter purpose, the service is totally free of charges.

[China]

- * The Greatwall MasterCard issued in China is only accepted by 4000 Greatwall or MasterCard card merchants in over 29 provinces and 200 cities. It is not an international card despite it bears a MasterCard logo.
- * The card can be used to transfer money for big transactions all over the country. In case cardholder enters into a big business deal, he can pay the seller by transferring money from the Greatwall MasterCard account to the seller's bank account. This not only saves cardholder's time to apply for a bank draft but also can postpone the utilization of capital. Should the cardholder make business trip around several cities, he can authorize his staff or relatives to deposit the sums for him bit by bit, therefore releasing him from carrying too much money to travel around. This is the most efficient, flexible and secured method of payment.
- * Cardholder can make withdrawal or deposit at the 191 branches of Bank of China. However, overdraft is not available, cardholder is only allowed to draw cash from his Greatwall MasterCard account when there is sufficient balance.
- * Some branches of banks in China such as Guangzhou Branch of Bank of China provides ATM facility to Greatwall MasterCard cardholder. Cardholder can use the card to withdraw cash from ATM machines. But the ATM machines

are not on-line throughout the country, not to mention the availability of international ATM services.

c. Product Line

[Hong Kong]

- * There are Gold MasterCard, Ordinary MasterCard, Visa Gold Card and Visa Classic Card. In Hong Kong, only Nanyang Credit Card Company Limited has launched the Silver Colour MasterCard Business Card product, target of which are company accounts. Apart from that, in each product line, there are both main and additional cards.

[China]

- * Whereas in China, both Gold and Ordinary MasterCard are in circulation. Bank of China has issued company card but the card is the same as the ordinary card, the only identification is from a digit of card number. The card number is so arranged that each main cardholder can apply for as many as 99 additional cards for his relatives. In terms of the settlement currency, Bank of China issues both Renminbi and Foreign Exchange Card. The targets of the latter are foreign representatives in China or persons who have to travel overseas for business frequently.

d. Brand Name

[Hong Kong]

- * Unlike Visa International, MasterCard International Inc.

permits members to put local card name on the card face. However, in Hong Kong except Hang Seng Bank and Nanyang Credit Card Company Limited, all other banks do not exercise their rights to do so. There are two advantages for utilization of a local brand name: First, it is easier for banks to differentiate their products with others. Second, the identity associated with the previous local card can be carried over and if the local cards have been a successful products, that may help the new product.

- * When Nanyang Credit Card Company Limited issued its MasterCard in 1986, it used the brand name of Federal-MasterCard. At the initial developing stage, the bank converted all its local Federal cardholders to holders of Federal-MasterCard. The same applied to Hang Seng Bank when it issued its Fortune-MasterCard in 1989. Most of the Fortune-MasterCard holders were holding the local Fortune Card previously. The only difference is that Fortune-MasterCard is accepted in Hong Kong only, whereas Federal-MasterCard is an international credit card.

[China]

- * China, following the practice of Nanyang Credit Card Company Limited, issued her MasterCard using the brand name of Greatwall MasterCard. All the previous local Greatwall cardholders are converted to holders of Greatwall MasterCard.

- * There are three reasons to use Greatwall MasterCard as the product name. First, the brand name of the local card issued previously can be carried forward. Second, to match the picture of great wall on the card face and third, for ease of promotion to distinguish it from other MasterCard products in China.

e. Card Design

[Hong Kong]

- * Only three banks in Hong Kong use pictorial design on the card face, namely, Hong Kong Bank ---- The Hong Kong Bank building, Standard Chartered Bank ---- The Hong Kong night scenery, and Bank of China Group (Hong Kong) ---- The Greatwall. Among them, Bank of China Group (Hong Kong) is the first to adopt such concept.

[China]

- * The Greatwall put on the face of Greatwall MasterCard is exactly the same as that being put on the card issued by member banks of Bank of China Group in Hong Kong. The reason is because Bank of China Group in Hong Kong is under the control by Head Office of Bank of China in Beijing, therefore, both banks in Hong Kong and China can share the same card design.

ANALYSIS

The major difference in product strategy of the two areas

lies mainly in product nature. According to the telephone interview with Mr Qiao, manager of Beijing head office, Bank of China, the main purpose of involving in card business for Bank of China is to absorb more deposits for the banks while to avoid credit risk. On the contrary, banks in Hong Kong try to lend out loans in form of a credit limit through the issuance of credit cards and earn revenues through the loan given out. Owing to such differences in objectives, banks in both areas therefore launch the products with different nature.

Due to control in supply of foreign exchange, it is difficult for China to issue international credit cards. It is because by doing so, Bank of China will have to reimburse overseas acquirers with foreign currency should its cardholders use the cards for payment in foreign countries. Even BOC is able to afford to do so, people in China are unable to have foreign exchange to pay back the bank. Hence only local credit cards are issued. Besides, since it is only MasterCard International Inc. that allows banks to issue local cards but carrying an international logo, BOC started its card business with MasterCard. Such problem does not exist in Hong Kong market.

Pricing Strategy

RESEARCH RESULT :

	Hong Kong	China

Joining Fee	no joining fee	no joining fee
Annual Fee	see Table 1,2,3	see Table 4
Cash Advance Handling Fee	3% on loan amount or 3% on loan amount plus 2% interest per month	N.A. but OD rate will be charged for overdrawn
Cash Withdrawal Charge	free	within the issuing city----free outside the issuing city----1%
Interest/Late Payment Penalty Charge	2 - 2.5%p.m.	N.A. but OD rate will be charged for overdrawn
Replacement Card Fee	HK\$50.00	RMB2.00
Cash Transference Fee	available if through ATM----free	* 1% of transferred amount if it is >RMB5,000 * RMB50 per transac- tion for transfer- red amount <RMB5,000
Cash Deposit Charge	free	within issuing city ----free outside issuing city ----1% of deposit amount
Deposit Interest	no interest will be given for deposit in credit card account	interest will be given two times a year on June and December

In credit card business, the pricing components usually include the followings:

a. Joining Fee

A one-time fee charged by the card company when one joins the company as card membership. When Visa and MasterCard are concerned, all card issuing banks in Hong Kong and

China do not charge their card members such fee. This usually applies to T & E card and is not a common practice for bank card.

b. Annual fee

A yearly fee charged by card company for the provision of services to its card members. The annual fee charges of credit cards in Hong Kong and China are listed in Table 1, 2, 3 and 4. It can be seen that the fees charged by the banks in Hong Kong are more or less the same with only small deviation. It is guessed that to avoid the negative effects of price-war, there is a collusion on annual fee charges among card issuers in Hong Kong. Hence, banks are forced to concentrate more on non-price competitive strategies. In China, since only Bank of China started its MasterCard business, there is no competition at all. The aim of head office, Bank of China is to launch a card which is accepted and can be applied throughout the country with uniform charges so as to avoid internal competition among various branches of China. Therefore, the pricing strategy of all the 191 branches of Bank of China in launching their Greatwall MasterCard is the same.

c. Cash Advance Handling Fee

This is a fee charged by card company when cardholders utilize their credit limits offered by the card company

Table 1: Annual Fee of Local Credit Cards in Hong Kong

Issuing Bank	Name of the Card	Annual Fee (Main Card) HK\$	Annual Fee (Sub-Card) HK\$
Hang Seng Bank	Fortune Master-Card Card	80	40
Nanyang Commercial Bank Ltd.	Federal Card	80	40
Overseas Trust Bank	OTB Card	150	75

Table 2: Annual Fee of Visa/MasterCard Gold Cards in Hong Kong

Issuing Bank	Visa Gold Card (HK\$)	Gold MasterCard Card (HK\$)
Bank of Credit & Commerce	400	-
Bank of East Asia	400	-
BNP	400	-
Chase Manhattan Bank	400	-
Hong Kong Bank	500	400
Hang Seng Bank	400	-
International Bank of Asia	400	400 *
Nanyang Credit Card Co Ltd	400	400
Overseas Trust Bank	400	380
Shanghai Commercial Bank	400	400
Standard Chartered Bank	400	
Citibank	400	-
Belgian Bank	-	300
Hong Kong Chinese Bank	-	300

* Morning Star Card

Table 3: Annual Fee of Visa/MasterCard Cards in Hong Kong

Issuing Bank	Visa Card (HK\$)	MasterCard Card (HK\$)
Bank of Credit & Commerce	180	-
Bank of East Asia	180	-
BNP	180	-
Chase Manhattan Bank	180	180
Hong Kong Bank	180	180
Hang Seng Bank	180	80 *
International Bank of Asia	180	200 **
Nanyang Credit Card Co Ltd	180	150
Overseas Trust Bank	180	150
Shanghai Commercial Bank	180	150
Standard Chartered Bank	180	180
Citibank	180	-
Belgian Bank	-	120
Hong Kong Chinese Bank	-	120

* Fortune-MasterCard, accepted in Hong Kong only.

** Refer to 'My Card'. The annual fee for Morning Star MasterCard Card issued by this bank is HK\$180.

Table 4: Annual Fee of Credit Card in China

Issuing Bank	Name of the Card	Annual Fee (Main Card) RMB	Annual Fee (Sub-Card) RMB
Bank of China	Greatwall Master-Card (Renminbi)	12	10
Bank of China	Greatwall Master-Card (Foreign Exchange)	48	24

to borrow money rather than to make purchase. Since the purpose of issuance of a credit card is to provide convenience for cardholders in making their purchase but not to offer them a means of making personal loan, the charges on cash advance services are relatively high when compare with bank's overdraft interest. In Hong Kong, as long as the cash advance amount is within the credit limit, cash loan is allowed. There are two ways to charges for such services:-

1. one is to charge 3% of the loan amount as handling fee to compensate the bank for its costs of cashflow and no additional fee will be charged unless cardholder does not make payment on due date. Examples of banks with such practices are Bank of Credit and Commerce, Citibank, Nanyang Credit Card Company Limited and Shanghai Commercial Bank.

2. the other way is to charge 3% of the cash advance amount and a 2% monthly interest from the date of taking cash to the date of repayment. The rest of the Hong Kong issuers are using such charging method to earn their profits.

Contradictory, in China, one can only obtain a card with a deposit made beforehand; therefore, in principle, cardholder is not allowed to borrow from the bank any cash. If to do so, there will be notice from banks to demand payment and deposit replenishment within three

days. If the overdrawn is within fifteen days, cardholder will be charged at bank's normal OD rate. However, if the OD exceeds fifteen days, the OD rate will be doubled.

d. Cash Withdrawal Charge

A fee charged when cardholder gets back his money from his deposit account with his credit card. In Hong Kong, this service is available if cardholder has requested the bank to encode his personal bank account into the credit card. No fee will be charged for this service. Nevertheless, in China, if withdrawal is made in branches of Bank of China outside the card issuing city, one percent of the withdrawal amount will be charged to compensate for the costs of telecommunication and documentation delivery.

e. Interest/Late Payment Penalty Charge

A penalty charge imposed on cardholder if he does not make any or the minimum percentage of payment on due date. In Hong Kong, if such happens, interest will be calculated back from statement date to payment date which means that there will be no interest-free period granted to cardholder if payment is not made in full on due date). He then will be followed by an interest charge based on the daily outstanding balance at a monthly rate of 2% to 2.5%. Except Nanyang Credit Card Company Limited and Hong Kong Bank, all banks even include subsequent

transactions to calculate the interest. When put it on an annual basis, the interest rate is as high as 24%-30% per annum, this really gives high revenue to banks.

Whereas in China, there is no such charge due to the fact that the credit card issued is not a personal loan card but a deposit card. In case there is overdraft, an OD rate will be imposed to the cardholder as penalty.

f. Other Fees

This includes charges on renewal card, replacement card, cash transference/remittance services and cash deposit services.

Both banks in Hong Kong and China renew card for their members free of charge. But if a card is lost or broken, reissuance of a replacement card will require HK\$50 and RMB2 in Hong Kong and China respectively. In terms of percentage to their annual charges, the fee is much expensive in Hong Kong. The reason for a higher charge in Hong Kong is due to more protection given to cardholder. Since the card is an international card, to prevent the lost card from being used by others, banks need to inform other banks all over the world to list the card as a Hot card in their computers. The card issued by China is a local card only, in this respect, the cost to inform branches of banks in China to Hot the card will surely be cheaper and hence a cheaper replacement card charge is put on cardholder.

Credit card issued by China is most useful in transference of money. Since it is a deposit card, cardholder needs not have to carry large sum of money when making business trips to several cities. When they enter into a big business deal, they may use the card to transfer the large sum of money to seller's account in 191 banks in China. He can arrange relatives to deposit money into his card account at separate time period, this not only helps the cardholder in managing their cashflow but also releases them from getting involved in the complicated remittance procedure. If the transferred amount is above RMB5,000, one percent of the transferred amount will be charged as handling fee. If it is below RMB5,000, only RMB50 is charged. In Hong Kong, such service is only available through ATM. There is a daily limit on the transferred amount ranging from HK\$4,000 (JETCO network) to HK\$6,000 (ETC network). The service is free of charge.

One of the product features of the Greatwall MasterCard is the availability to make deposit in 191 branches of Bank of China. But if deposit is making in branch outside the city of the card issuing bank, one percent of the deposit amount will be charged as handling fee. In Hong Kong, bank branches accept deposit into credit card account free of charge. This difference can be explained by the geographic proximity of the banks' branches in

Hong Kong, China is larger and therefore costs involve in communication is higher.

Unlike banks in Hong Kong, banks of China will reimburse their cardholders for the deposits in their card account. The interests will be paid on 30 June every year for individual cardholder and on 30 December for company cardholder. As the main purpose of China to issue card is to absorb deposits, this practice is easily justified.

ANALYSIS

- * As reflected in Table 1,2 & 3, the pricing policy of banks in Hong Kong is more or less the same. In order to avoid the negative effect of price-war due to keen competition, banks in Hong Kong have an informal agreement among themselves on pricing policies. Hence, recent trend shows that they are concentrating more on non-price competing strategies such as improvement on customer services. The typical example was the recent advertisement of Citibank, the main theme of which was on enhancement of full range of customer services such as larger credit limit, quick replacement card services, prompt processing of supplementary card application, availability of merchandising services and insurance scheme.

- * Due to difference in product nature, pricing policies are different in Hong Kong and China. BOC imposed small or even no charges on most of the services provided whereas,

banks in Hong Kong charge rather high, especially on cash advance services and interest charges for late payment. It is expected that since the objective of banks in China is to absorb deposits through card issuance, they are more willing to provide supportive free services. However, card issued in Hong Kong is in a form of giving out loans, which means higher risk to issuers, banks will expect to get relatively higher return from cardholders through various kinds of charges.

- * Banks in both areas charge relative low annual fee. The reasons behind are first, banks adopt a penetration policy with an aim to obtain as a large cardholder base as possible in a short period and second, it is the ongoing revenues generated from repeated usage of the cards subsequently rather than the annual fee that most of the banks are looking for.

Promotion Strategy

RESEARCH RESULT :

Promotion Mix	Hong Kong	China
Advertising	TV, press, MTR and signboards advertisements	no/limited
Sales Promotion	<ul style="list-style-type: none"> * free gift * lucky draw * bonus point scheme * merchant discount and merchandising services 	<ul style="list-style-type: none"> * lucky draw * merchant discount
Public	limited	large scale TV

Relations		and press release
Personal Selling	<ul style="list-style-type: none"> * member-get-member program * staff-get-member program 	<ul style="list-style-type: none"> * bank staff referral
Others	<ul style="list-style-type: none"> * attractive card face design * colourful applicant forms being displayed in different channels * free magazine * free membership news * joint issuance of affinity cards with famous shops * market segmentation * direct mailing program 	<ul style="list-style-type: none"> * unique card face design * special designed application form and pamphlets being displayed in different bank branches * membership club * membership news

In Hong Kong, in view of the keen competition and long history of development, vigorous promotional campaigns trying to differentiate card products can be seen. Various promotion strategies are adopted by card issuing banks which can be further divided into offensive and defensive strategies. The aim of former strategies is to absorb more new cardholders while that of the latter is to maintain and stimulate the existing cardholders to increase their card usage. Followings are the promotion strategies adopted by banks in Hong Kong.

a. Offensive Strategy

1. Annual fee benefits are offered. Cardholder can enjoy waiver of first year annual fee if applications are submitted within a promotion period and are approved.
2. Free gift is given to new cardholder.

3. Lucky draw with attractive prizes such as a car or a flat is designed to attract new members.
4. Beautiful card face design is one of the attractions to applicant. The Greatwall of Nanyang, the night scenery of Standard Chartered and the distinctive building of Hong Kong Bank are the examples.
5. To focus on special market segment is also one of the strategies. Examples are My Card by International Bank of Asia which targets on female market and the University Card by Hong Kong Chinese Bank targeting on university students.
6. Joint issuance of affinity card with big department store is another promotion strategies to get more card members. Examples are Jusco Card, Morning Star Card, Dragon Seed Card, Daimaru Card and Sogo Card. Cardholders of these cards can enjoy both the benefits offered by the card issuing bank as well as that offered by the department stores or shops which issued the cards.
7. Direct mailing is used as a below-the-line strategy to get members. Hong Kong people are busy, if application forms are delivered to their hands, especially those that are pre-approved, will be welcome by them.
8. To further exploit the market potentials, banks also launch the referral scheme. Cardholders or staff who can refer new card members can be granted prizes

ranging from small souvenir to big electrical appliances.

9. Large scale above-the-line advertising program with advertisements on newspaper, magazine, TV and MTR stations to build up image and arouse awareness from the target market can be observed frequently.

b. Defensive Strategy

1. Services with improved quality are provided which include higher credit limit, larger ATM network, more means to make payment, longer interest-free period and lower payment requirement.
2. Insurance services are also offered as an additional benefits. These include travel accident insurance and lost card usage protection. Cardholders will be protected by those insurance schemes free of charge.
3. Bonus point scheme is one of the gimmicks to stimulate card usage. By spending one dollar, card member can earn one bonus point. By accumulating those points, they can exchange for waiver of annual fee or other gift items.
4. Merchant discounts and various merchandising services are offered in festivals like Easter, Valentine's Day, Mother's Day and Christmas to give cardholders an impression that card companies are taking care of them everytime.
5. Free magazine or member news are distributed to main-

tain close communication with card members.

In China, generally there is limited promotion of the Greatwall MasterCard by Head Office of Bank of China, but individual branches do carry out their own campaigns which include:

- a. TV and press release by Beijing and Guangzhou Branch. This is regarded as the most economical promotion methods.
- b. Lucky draw program of Foshan Branch. The drawings was conducted once a month base on the credit card sales vouches acquired that month. Cardholder should keep their own copies of vouchers and obtain the prize according to the serial number on the voucher.*
- c. Zhujiang Branch even sets up a Greatwall MasterCard Members' Club. Only cardholders are eligible to join the Club and enjoy the services such as karaoke, disco and snack bar. This is supposed to provide a gathering place for members.*
- d. Xiamen Branch even publishes the member newsletter three or four times a year. By supplying information like new merchant acceptance outlets and new services, the bank intends to build up better communication with its members.

* Source: Information released by Bank of China, Guangzhou

- e. Guangzhou and Zhujiang Branch sometimes arrange discounts of selected merchants to members. The purpose is to provide better service to cardholders and to stimulate more card usage. This is a promotional strategy that gives benefits to all the parties, namely, the cardholder, the merchant and the bank.
- f. Most of the banks displayed application forms as well as colourful pamphlet concerning product features, fee structure, application requirement and procedures in the bank halls. This kind of advertising material is usually included in application forms in Hong Kong and therefore no separated pamphlet will be printed.
- g. As a matter of fact, the Industrial and Commercial Bank of China is more aggressive in running its Peony Card. Ever since the official launch of the card in 1989, the following eight promotion strategies were adopted by the Zhuhai Branch to arouse the awareness of people in China:
1. Lucky draw based on copy of the sales vouchers. The prize was a free credit card consumption limit which was as high as RMB2,000.
 2. Bonus point scheme. Whenever the annual spending of a cardholder reached RMB1,000 to 1,999, his next year annual fee will be half. But if the annual spending exceeded RMB2,000, the next year annual fee will be totally waived.
 3. To maintain its cardholder base, the bank also took

care of the benefits of its existing cardholders. A free gift was given to members upon renewal of card.

4. Every year, the top thirty cardholders with highest spending were selected and granted prizes.
5. To further expand its cardholder base, existing members are encouraged to refer new members. Referral could obtain a one-tenth reduction of his annual fee if he successfully introduced a new member.
6. Free insurance program on lost card usage is also provided free of charge to give cardholder sense of security in holding a credit card.
7. Merchant discounts on big department stores and shops are offered to Peony Card holders only.
8. 'Peony Card Membership Club' was set up to provide an entertainment area for cardholders.

Due to limited budget, all these campaigns are in local scale only. The prizes offered are also not as attractive as that in Hong Kong.

ANALYSIS :

- * More combinations of promotion mix are adopted by banks in Hong Kong. BOC concentrates more on low cost promotion mix such as public relations and personal selling. Few budget was devoted to advertising and sales promotion. Such phenomenon can be justified by two reasons. First, the product is more matured in

Hong Kong with more competitors, more promotion is necessary to create product differentiations and generate more applications and usage. Second, most of the banks in Hong Kong involving in this business are private commercial banks. Some of them like Chase and Citibank are even international banks, they are able to afford large amount of advertising budget. A typical example was in 1985 when Chase launched its card products in Hong Kong totally free of charge, the program was supported by overseas' advertising budget. The business in China, on the contrary, is now running by Bank of China, which is a government-owned institution, therefore advertising budget is limited and controlled by central.

* Because of the difference in the developmental stages, banks in Hong Kong adopt both defensive and offensive strategies. They have to get new members while at the same time protect their own market share from being eroded by others. In China, since the product is still new and is running in monopoly, many of the promotion strategies are offensive such as press release and bank staff referral scheme.

* Owing to the increasing saturation of the market, banks in Hong Kong are now expanding to capture more market niches. Issuance of cards to specific target

segment such as 'My Card' to lady market, 'University Card' to students and joint issuance of affinity cards with famous merchants such as 'Jusco Card', 'Mobil Card', 'Morning Star Card' are examples. Some banks even vertically integrate into the merchandising services as a source to earn revenues as well.

Distribution Strategy

RESEARCH RESULTS :

	Hong Kong	China
Channels	<ul style="list-style-type: none"> * bank branches * chain stores * department stores * ferries and ferry piers * counters in shopping arcade 	<ul style="list-style-type: none"> * bank branches

Most of the banks in Hong Kong will make use of their branch-network to display application forms, in addition to that, they also display the forms through other channels such as chain stores like Seven-Eleven, Watson's and Wing On Department Store, ferries and ferry piers as well as special counters in shopping arcades. The purpose of which is to cater for the busy Hong Kong people who cannot afford to spend time going into the bank during office hour.

However, in China, application forms are only available in branches of banks. There is no other source to obtain the form after the bank's office hour.

ANALYSIS :

At this stage, it is difficult for banks in China to arrange other shops to display application forms because this will involve handling charge to merchants and a large wastage of application forms. In addition, the branch network of BOC is considered large enough to distribute the forms. While in Hong Kong, some banks have a relatively narrow network of branches, they would rather seek for other channels to display forms. Besides, Hong Kong people are rather busy, they may not be able to spend time to get a form during office hours but that may not be the case during their transportation or shopping time. The recent popularity of 24-hour shops also provide a good channel for banks to distribute application forms.

Operation System of Credit Card Business in Hong Kong and China

Regarding to operation of card business, perspectives on credit approval, authorization, settlement, credit control and fraud prevention are areas of concern.

Credit Approval

RESEARCH RESULT :

Banks in Hong Kong usually concentrate on the financial standing and occupation of the applicants during card approval. The monthly income requirement is around HK\$4,000 for ordinary card and around HK\$15,000 for a gold card. Information on income and occupation should be provided. Only Hong Kong residents are allowed to apply for cards of banks without overseas branch. However, in China, to apply for a credit, applicant must have a bank account with the following amounts of deposits:

<u>Type of Card</u>	<u>Deposit Requirement(RMB)</u>
Individual Renminbi Card	1,000
Company Renminbi Card	5,000
Individual FOREX Card	5,000
Company FOREX Card	10,000

The applicant should belong to a stable working unit and that his application should be guaranteed by a guarantor. No other document except copy of identity card is required. The application procedure is therefore simple but requirements are high.

Authorization Service

In the jargon of credit card business, authorization means a merchant is required to check the credit availability of a card from card company before it is accepted to make payment. Table 5 and 6 illustrates the flow of credit checking when a card is accepted to make payment in a shop. Basically, banks in both areas offer a 24-hour 365 days

Table 5: Credit Card Authorization Flow in Hong Kong

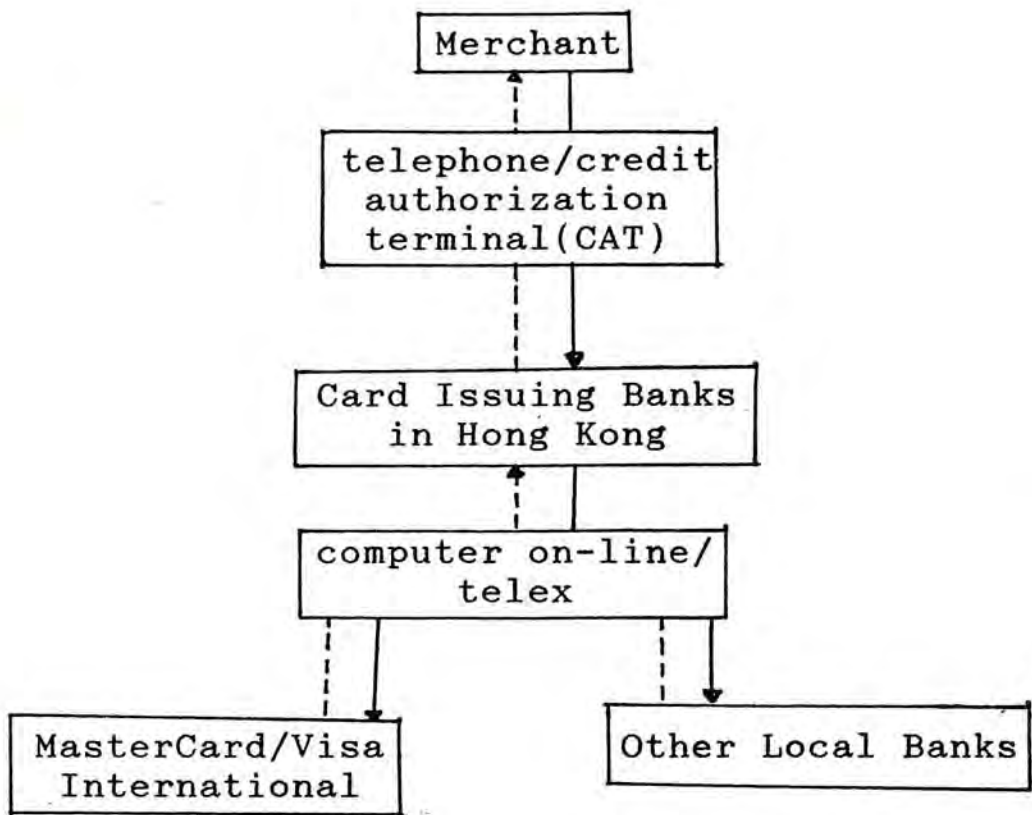
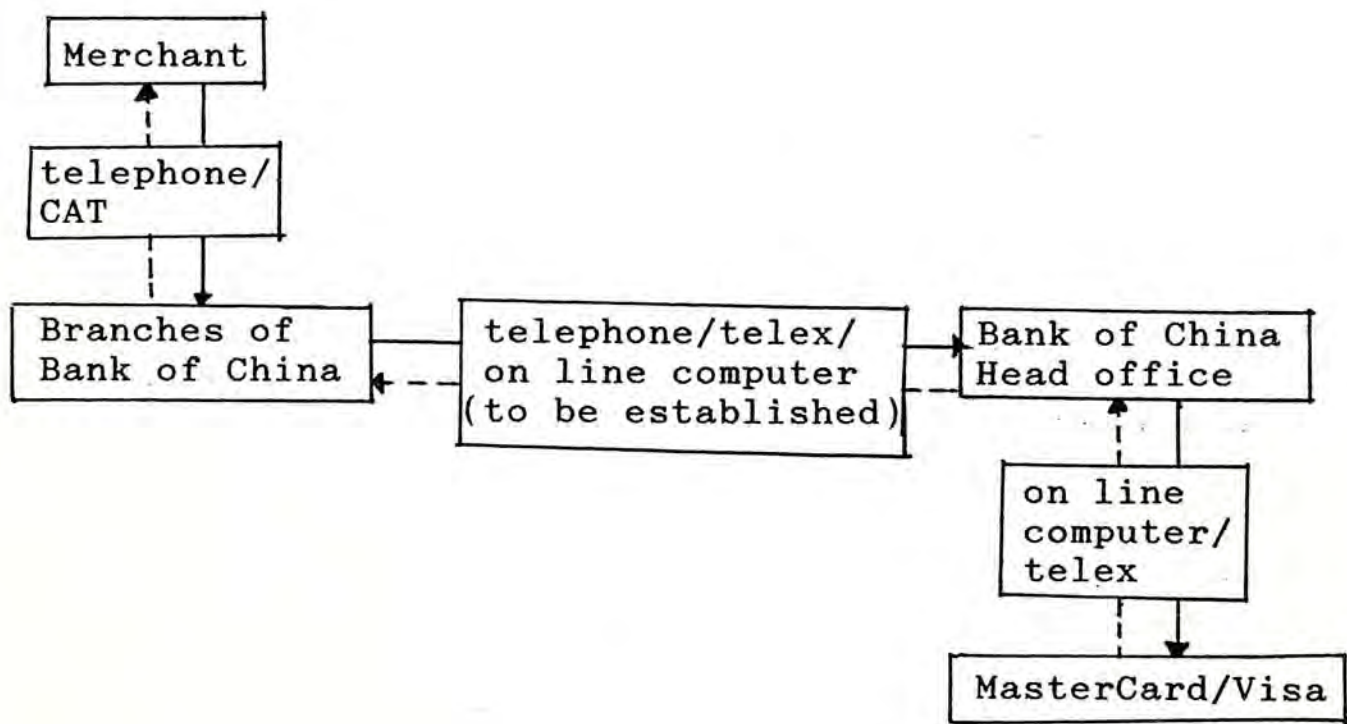


Table 6: Credit Card Authorization Flow in China



authorization service to most merchants but due to the instability of electricity supply and unreliability of telecommunication network in China, the authorization service provided in Hong Kong is expected to be more stable.

Settlement Flow

When a merchant submits vouchers to a card company, the latter will reimburse the merchant after deduction of a handling charge. The way that the card company gets back the money from other card issuing banks by submitting the transaction data is the settlement flow.

Table 7 and 8 illustrate settlement flow of banks in Hong Kong and China.

In Hong Kong, the transaction data captured by the acquiring banks are divided by computer into three types, namely, the transactions of cardholders of other local banks, its own cardholders and cardholders of international banks. The bank will collect the money and submit the international data through a computer on -line with MasterCard/Visa International. Loss on cashflow is therefore minimized. But transaction data of local banks is transmitted through tape with bank cheque as a method of settlement. Finally, transaction data of its own cardholders will be posted on to their card accounts by computer and are billed once a month.

In China, the settlement involves three types of data: the issuing bank's own cardholders' transactions,

Table 7: Settlement Flow in Hong Kong

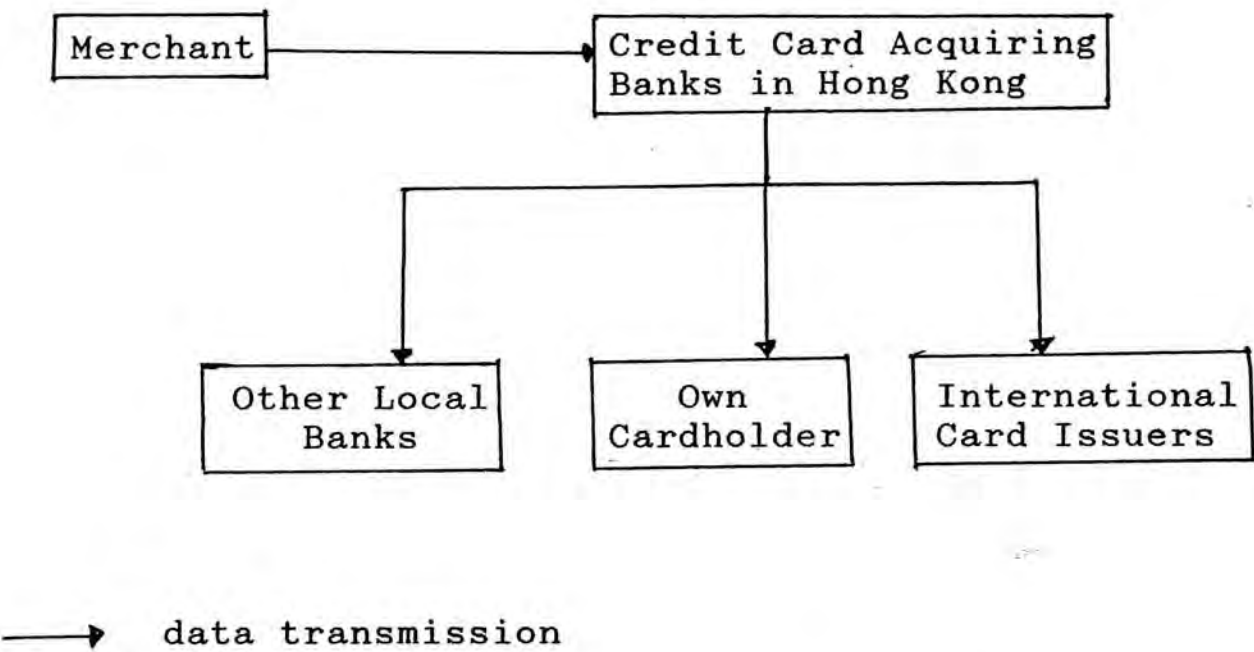
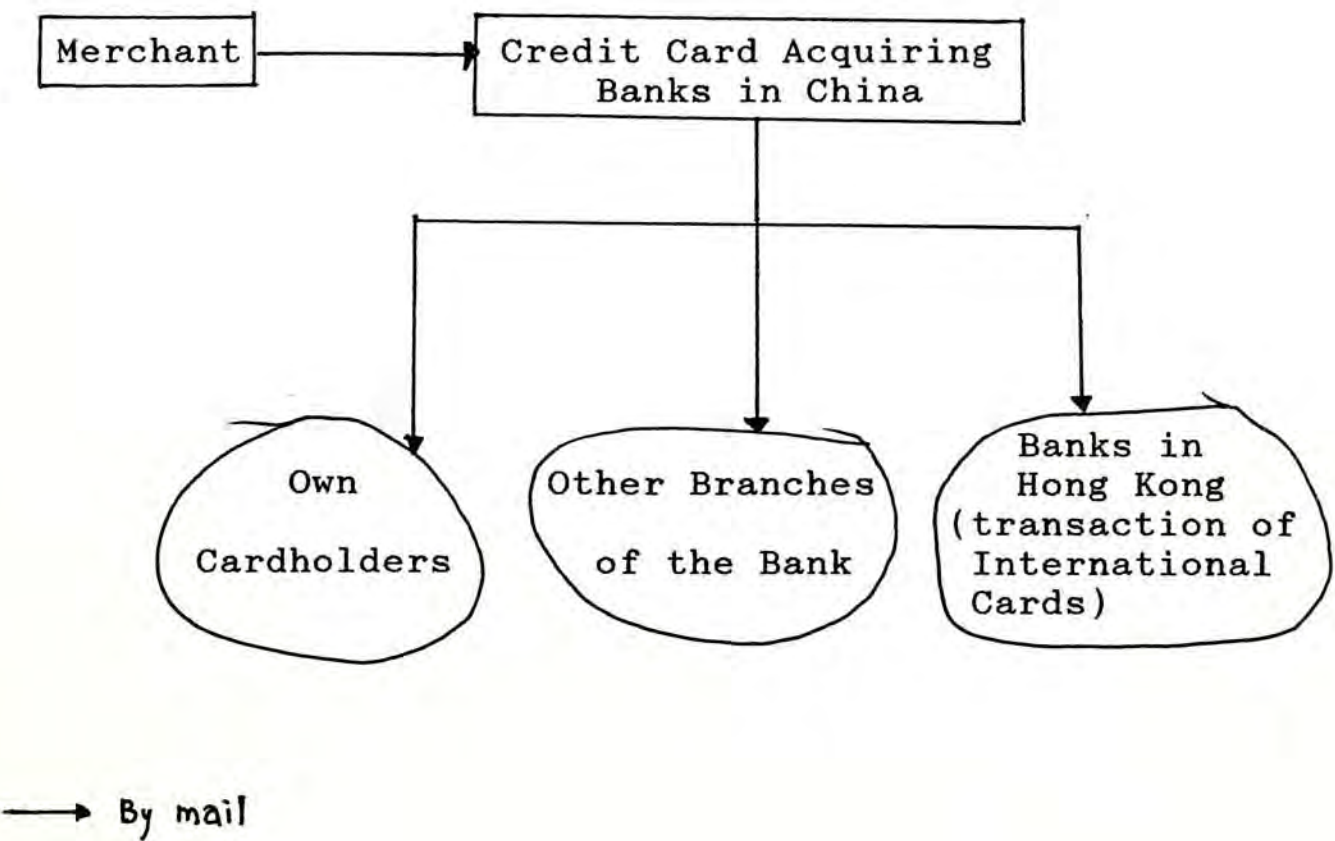


Table 8: Settlement Flow in China



transactions of cardholders of other branches of the bank and international cardholders' transaction acquired by the banks (as an agent for banks in Hong Kong). The last type of transaction currently is passed to Hong Kong for settlement. For the first type of transaction, the bank is reimbursed by deducting the cardholder's deposit account. The transaction vouchers of cardholders of other branches are sent back to relevant cities by mail with money settled through debit of internal accounts maintained between branches and the debit advice is also delivered by mail. Finally, the third type of transaction can be reimbursed by deducting the deposit accounts maintained in China by banks of Hong Kong and the vouchers are sent back to Hong Kong by post.

Credit and Security Control

The ways to control the overdue account in Hong Kong include letter and telephone warning. For serious accounts, banks will request external collection agencies to help. In the worst cases, legal action will be taken against cardholders.

In China, the ratio of bad debts to total deposits is one to two percent. Since Bank of China is a stated-own institution, to owe the bank means to owe the government and the punishment is serious; therefore the percentage of bad debt keeps to be small.

Recently, fraudulent transactions are increasing in

Hong Kong, according to Mr. Raymond Chan, General Manager of Asia Pacific, Visa International in the press release on February 7, 1991, 0.3% of the last year US\$21 billion Visa card spending in Hong Kong are fraudulent. There are three ways to involve into such transactions:

a. Make use of the stolen card to make big purchase within short time, before the card is reported lost by the cardholder.

b. If the stolen card has been reported lost, thief may re-emboss another card number on that genuine card. The technique is so skillful that it can hardly be detected by some of the less-experienced merchants.

c. For some merchants, they may have installed a credit authorization terminals to check credit authorization through reading of the information encoded on magnetic stripe of the card. Thief may re-encode the stripe information of a lost card with a valid card number such that when such information is passed to card company, an authorization approval can be obtained.

The measures taken to prevent such cases include increasing counterfeit insurance protection by Visa International, re-design of new card face such that security features are put on card face to make re-embossing more difficult. A special value which is calculated and assigned by issuing bank is coded in the stripe of each new card. If the stripe information is changed, the value will be invalid and card issuer

will detect the happenings of a counterfeit transaction.

In China, the counterfeit cases are still limited. The major reason is guessed to relate to the product nature. As credit card is in fact a deposit card, the amount available for spending is limited to the amount of deposit maintained, hence it is not so justified to produce a counterfeit card with limited usage.

ANALYSIS :

When credit approval procedure is concerned, the credit risk in China is lower. Only those who belong to a stable working unit, supported by a guarantor and is able to make a deposit, are eligible to apply for a Greatwall MasterCard. However in Hong Kong, some banks mentioned in the advertisement that those who are above 18 with a permanent job are qualified to get a card. Such a release in the application requirement may increase the probability of credit risk.

When authorization procedure is concerned, in Hong Kong, basically every card issuer can have direct computer communication with international organisations. In China, nevertheless, only head office of BOC has such facility. Branches or merchants in different cities have to contact the head office for credit information should they accept an international credit cards for cash advance or purchase.

That also explains why China is late to start the acquiring business of their own.

When settlement is concerned, banks in Hong Kong can collect their money and update the cardholder information through on-line computer, thus minimizes the costs of cash-flow and reduces risks of overspending. While in China, although the bank can obtain money back immediately through direct debit of the accounts maintained by banks of Hong Kong in China, delivery of transaction data by mail delays the updating of cardholder's credit information.

When credit and security control is concerned, it appears that the problem is more serious in Hong Kong because cards issued in there are accepted internationally. However, due to large geographic coverage of China and insufficiency of telecommunication network, potential risks of credit runaway or fraudulent usage of lost cards are expected to be increasing.

SWOT ANALYSIS

From the interviews with the chief Beijing representative of MasterCard Inc. and Nanyang Commercial Bank and people in Bank of China, the strength, weakness, opportunities and threats of running card business in China and Hong Kong can be summarized in the following:

SWOT Analysis of Card Business in China

Strength

1. Huge potential for development of local cards. According to Mr Qiao, there is over 1 billion of population in China, among it, 200 million is urban population. If each gets a card, China will get over 200 million cards. Therefore, huge population infers a huge potential for future development.

2. Recognition and support from top management. As reflected by people in BOC during in-depth interview, the bank started its card business for four reasons:

- to get involved in the advanced financial payment system,
- to increase the international goodwill of the bank,
- to strengthen the influential power of the bank throughout China and
- to earn profit.

3. Easy to obtain assistance from international organisations. Large market potential implies strong bargaining power, BOC is able to get support, training and assistance from international card organisations for setting up of its card business.

4. Control of free entry and exit of the country and the system of individual entitlement to a fixed working unit makes credit control easier and lowers the credit risks.

Weakness

1. Insufficient telecommunication network. This may hinder the development of the business especially when credit risk is concerned.
2. Lack of experienced personnel. Despite some people got experience in issuance of local Greatwall Card, they lack experience in handling international credit cards. But this problem is expected to be solved through provision of intensive training either locally or abroad.
3. Unwillingness of merchants to accept credit cards. As acceptance of cards may mean increase operating costs and a lower profit margin in short term (when number of cards issued is not big enough to generate a big sales volume), merchant will reject to accept cards. However, BOC will try to solve the problem by conducting more merchant education program and seminar.

Opportunities

1. Following the adoption of economic open policy by central government, (people in China are exposed to more new ideas. It is expected that the credit card concept will be more widely accepted in future.)
2. The growing of tourism industry in China will give more potentials in the development of acquiring business.

Threats

1. Control in supply of foreign exchange will hinder the

development of international credit card business.

2. Due to large geographic coverage of China, control, administration and co-ordination will be a problem if the business keeps growing.

3. Increased competition may increase the operation costs and lower the profit earned by each bank.

SWOT Analysis of Card Business In Hong Kong

Strength

1. Hong Kong people are more acceptable to Western concepts and management style. Therefore when introduced from western countries, credit card concept was accepted by Hong Kong people quite fast.

2. Having got over 20 years' experience in running credit card business, experienced people are available to continue the business.

3. Technological advancement helps to push the business a step ahead. With the installation of the data-captured terminals in merchant sites, merchants can enjoy prompt authorization as well as prompt reimbursement services, they are therefore more willingly to accept cards.

4. Tendency towards co-operation among card issuers such as launch of generic advertising program and joint conduction of merchant education program.

Weakness

1. Limited merchant potentials. Hong Kong is such a small area with over 30,000 credit card merchants, it is difficult for banks to further explore new potential merchants. They are just trying to get merchant business from each other.
2. Similarly, the competitive environment increases the operating costs of banks and this may give negative effect to banks' profit margin.

Opportunities

1. Substantial acquiring business opportunities in China. In view of the unavailability of communication network, the acquiring business in China is now taking up by four banks in Hong Kong. With the growth of tourism industry in China, the potential for such business is great.
2. Improved technology can further expand the business to cover small merchants. The installation of data-captured terminals shortens the card acceptance time and hence shops with frequent but small transactions such as super-market can also be considered to accept cards.

Threats

1. A tendency that China will take up the acquiring business will greatly affect the profit of the four banks in Hong Kong.
2. The recent migration trend and lowering of application requirement due to competition may give rise to a higher

percentage of credit loss.

3. As the development of business is becoming matured, people are able to learn skill to produce counterfeit cards or to acquire knowledge to use the cards illegally, counterfeit loss thus tends to increase.

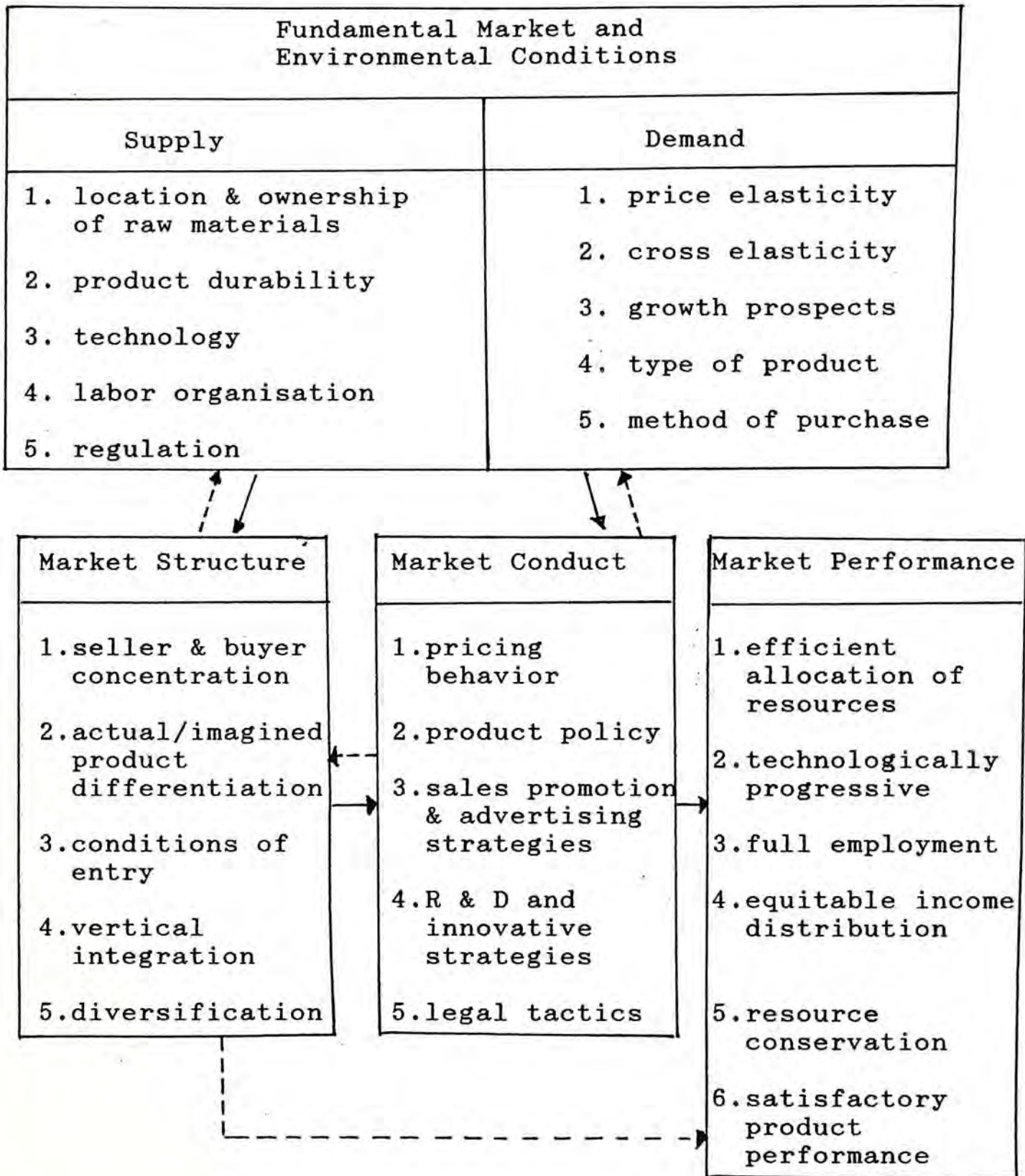
CHAPTER V

COMPARISON BASED ON MCGUIGAN'S MODEL

In previous section, a detailed review has been put on to the marketing strategies and operation systems of the credit card business in Hong Kong and China. The similarities and differences of the credit card business between these two areas may be due to various factors. McGuigan, based on Mason and Bain's model, had proposed a conceptual market performance model which stated that the market performance of an industry was affected by the fundamental environmental conditions, market structure and market conduct of the industry. Table 9 illustrates the model, solid arrow lines indicate a direct effect and dotted lines imply an indirect effect.

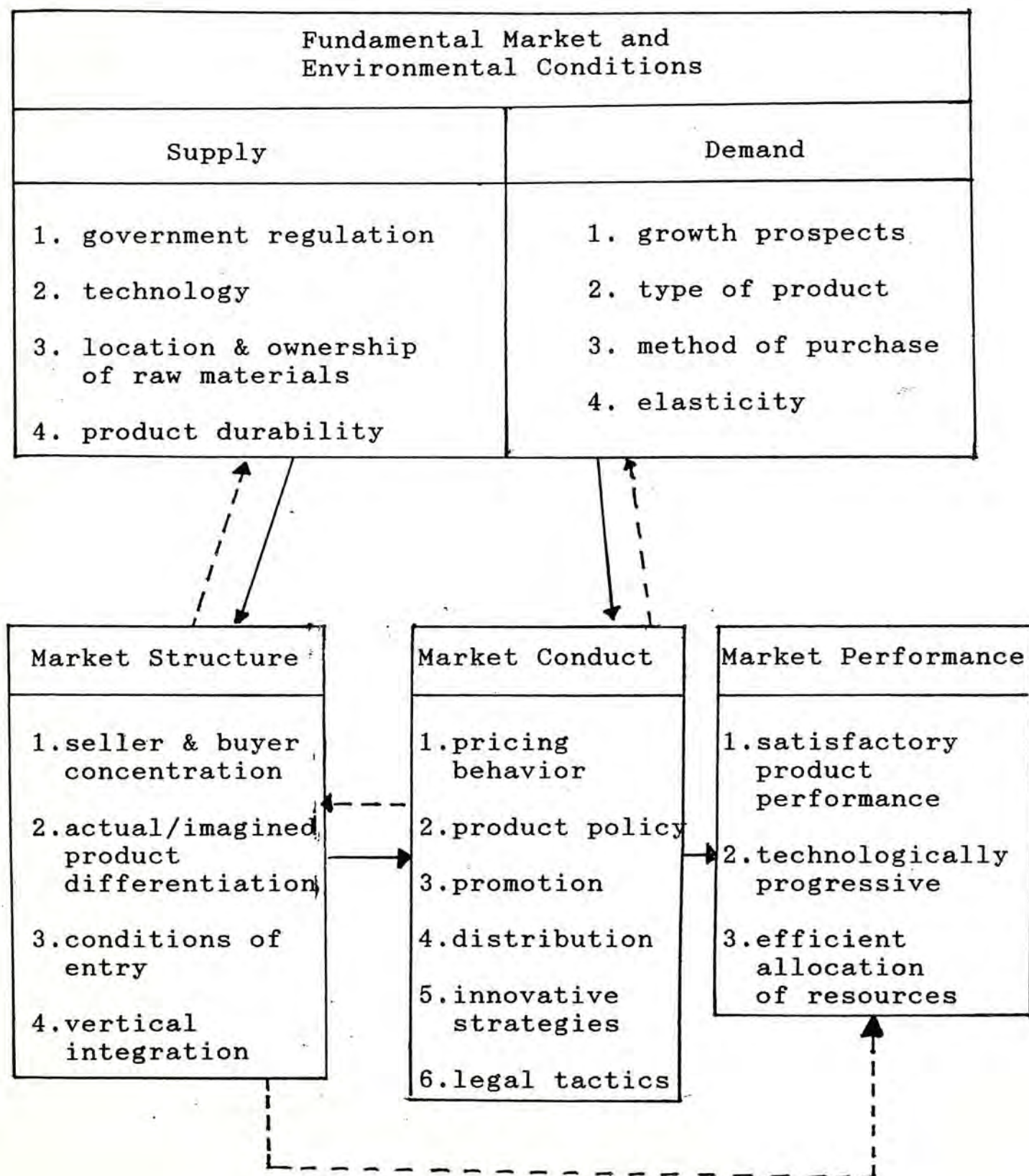
In this chapter, an explanation on the similarities and differences of the market performance of credit card business in Hong Kong and China based on the comparison of the market conditions, market structure and market conduct in these areas was made. Table 10 demonstrates the modified model that will be adopted for comparison purposes in the following section.

Table 9 - A Conceptual Market Performance Model



Source: McGuigan, J.R. & Moyer, R.C. Managerial Economics, 4th ed., West Publishing Co., 1986, pp.579

Table 10 - A Modified Conceptual Credit Card Business Performance Model



Fundamental Market and Environmental Conditions

The market structure and market conduct of a business are directly influenced by the environmental and market conditions which in turn can be divided into both supply and demand market conditions.

On the supply side, the factors that influence the development of the credit card products in Hong Kong and China are government regulation, the state of technology in the area, the location and ownership of raw materials and durability of the card products:

a. Government regulation

In China, there is government control to the supply of foreign exchange, therefore the development of international credit card is prohibited. Cardholders of an international credit card are required to pay the bill in foreign exchange for overseas transaction. Due to the limited supply of it, it is difficult for individual to apply for such card, hence, these cards are only issued to small number of corporate accounts. Majority of the cards are used locally only.

Whereas in Hong Kong, there is no such regulation to control the running of such business with the exception of interest rates should not be higher than 60% per annum. This explains why banks in both area adopt same Visa and MasterCard trademarks but the acceptance areas of such cards

are different.

b. Location and ownership of raw materials

As China is a communist country, under planned economy, price is under government control. Despite the open economic policy since 1979, the relative consumption index is still not so high as compare to capitalist areas like Hong Kong, big credit card spending items are less. This surely will affect the volume of credit card business. This also explains why the development of card business in Hong Kong is earlier and why it expands so fast recently following the expansion of the economy of Hong Kong.

On the other hand, since Bank of China is a stated-own institution, it is easy to obtain technical and economic support from international organisations. As long as Bank of China made up her mind to join MasterCard International, the organisation, in view of the huge potentials in China, provides a free system training to her technical staff in both New York and China.

In addition, due to the fact that Bank of China is run by government, the credit card bad debt ratio is low. Cardholders dare not overdrawn or run away card bills, otherwise this may mean owing the government and the consequence will be serious. In Hong Kong, except Overseas Trust Bank which is taken up by Hong Kong Government, all banks are privately owned and therefore the development and security control of the credit card business can only be taken

care by their own effort.

State of Technology

As can be seen previously, technology plays a crucial role in credit card business. Merchants depend on the telecommunication network to get approval code from acquiring banks. Acquiring banks also rely on telecommunication network to get approval code from and transmit transaction data to card issuing banks as well as to obtain money reimbursement from international organisations. China, with the limited coverage of its telephone lines and unstable electricity supply, faces great difficulty in having frequent contacts with external parties and this therefore hinders the development of international card business. This explains why Bank of China, although issuing its own local credit cards, still does not expand its own merchant acquiring business --- it only collects the vouchers on behalf of banks of Hong Kong and passes the vouchers back to Hong Kong for settlement, to eliminate the direct contact with various international issuing banks.

Banks in Hong Kong, on the other hand, with the speedy development of telecommunication technology of the city, most have direct computer interface linkage with not only international organisations but also with merchants as well. By installation of credit authorization and data capture terminals in the sites of merchant shops, not only will help to control the credit of each cardholder better

but also helps to save workload of data entry and provides fast authorization and settlement services to merchants.

d. Product durability

Product durability is another important factor to consider by suppliers in the market, especially for new supplier. Since once one joins the bank as a credit card member, there will be on-going revenue generated. Every year, card issuer will earn an annual fee and for every transaction, the bank will also earn commission. In China, since there are still few suppliers and the cards are renewed every two-year, brand switching is comparatively low and product durability is high. This factor appears to be attractive to existing suppliers but not new ones. In Hong Kong, since there are more suppliers, more substitutes are available in the market, cardholders are susceptible to rival firm's marketing strategies, therefore brand switching rate is higher. This reduces the product durability and new suppliers may see opportunities to enter the market.

On the demand side, factors affecting the card business include market growth prospects, type of product, method of purchase as well as demand elasticity.

a. Growth prospects

In Hong Kong, according to the research conducted in early 1990, there are 1,830,000 working force of age 18 or above with a monthly income more than HKD4,000. Among them,

only 1,200,000 have one or more credit cards (about 1.3 cards per holder). That is to say, the credit card market has not been saturated yet and there is 31% of the market (about 630,000 people) yet unexploited. In addition, following the prosperous of the direct mailing and merchandising services, there is also potential for card issuing banks to push up the average spendings of their cardholders.

The growth prospects are even greater in China. When China is having a total population of 1.1 billion, there are only 200,000 cards issued which means every 5,500 people only one gets a credit card. Since there is no income requirement on card application (but depends on amount of deposits only), the growth potential is therefore high.

b. Type of Product

In China, since ATM facilities are not popular, people have to carry large sum of money or depend on bank's remittance services to travel or trade around different cities in China. There is a need for a more save and convenient banking service. The concept of 'deposit' credit card can help to serve this need. Hence, once launched by Bank of China in 1986, the business is growing satisfactory. Particularly, following the open economic policy, there are now more individual enterprises, need for such service is thus higher.

In Hong Kong, with provision of a revolving credit

limit, cardholders are virtually given a personal loan with an interest-free repayment period. Since credit card gives them advantages of convenience and security, despite the popularity of Automatic Teller Machines, it is expected that people should be happy to get at least one credit card. But some of the Chinese in Hong Kong still holds the ideas that 'card would make people buy some unnecessary commodities' and 'not to use money beforehand'. That is why there is still 31% of the market untapped but some possess more than one cards --- banks are actually getting market share from each other but difficult to expand the market size as a whole.

c. Method of Purchase

Application procedure for a credit card is simple. Starting from October 1, 1990, Hong Kong Government recognises those with age 18 are major, some of the card issuing banks in Hong Kong only require a copy of identity card plus proof of a stable job as supporting document. Before this, banks usually request identity card, tax income and bank statement copies as supporting document for an application. Such release of application requirement surely will have positive effect as to the growth of individual bank's business.

(Bank of China, on the other hand, requires applicant to provide a guarantor who is supposed to take up the applicant's liability in case a card is issued and he/she fails

to pay the bill. This additional requirement even though complicated the application procedure but since there are few close substitutes, negative impact is not significant.

d. Elasticity

With a continuous effort of more than ten years by Visa and MasterCard International and several card issuing banks, the concept of credit card is accepted by more and more people in Hong Kong. In Hong Kong, there are more than 1.5 million credit cards issued and over thirty thousand merchants accept cards, varieties of which extend from hotel, restaurants, boutiques to oil station and mail order services. When added into the function of bank card such as ATM and POS facilities, credit cards are becoming more important to people of Hong Kong in their daily life. Therefore, once having got one, it is not easy to do without it, the demand is quite inelastic.

In China, nevertheless, the card should be backed up by a deposit and is not very useful if transactions are usually in small items. In addition, some merchants are still resistant to pay the commission to card acquiring banks if they are to accept credit card in their shops. Hence the merchant outlets are not yet widespread. There are only 4,000 merchants in China which honored Greatwall MasterCard. In view of such limited coverage, the demand elasticity is relatively high in China.

Market Structure

Such fundamental market and environmental factors have given direct impact to the various conditions of the market structure of the card business in Hong Kong and China. Such conditions cover the seller and buyer concentration (which means competitive condition), the product differentiation, barrier to entry and vertical integration, that is, extension of the business forward or backward. All these factors in turn are affecting the marketing strategies and performance of individual banks.

a. Seller and Buyer Concentration

In Hong Kong, there are altogether twelve Visa card issuers and ten MasterCard issuers, each is focusing on the 1.8 million target markets. Unfortunately, there are more than 1.5 million cards being issued with approximately 69% market has already been exploited. The competition is obviously keen. It is said that Citibank, JCG and Security Pacific Bank will also issue MasterCard this year following the entrance of MasterCard market by Chase last year, competition to gain card members will be more intense.

In China, Bank of China is no longer the monopoly in credit card business. Up to early 1991, there are six banks joined Visa and MasterCard, namely, Bank of China, Industrial and Commercial Bank of China, People's Construction Bank of China, China International Trust and Investment Corporation, Bank of Communication and the Agricultural Bank of

China. Although the rest of the five banks not yet formally start their MasterCard/Visa Card business, the joining of Industrial and Commercial Bank (ICBC) to these two organisations in late 1990 can be viewed as a threat to Bank of China. It is because ever since that bank started the issuance of its Peony Card in October 1989, the business expanded drastically with over 2,000 merchants, 30,000 holder and monthly transactions exceeded 20 million RMB. Presently, it is the world's largest bank in terms of customers (over 500 million accounts which represent 46% of China's population), branches (30,000 branches throughout China) and staff (more than 480,000 employees). It is therefore reasonable to guess that the competition of credit card business in China will be great in future.

b. Actual/Imagined Product Differentiation

Since all cards issued in Hong Kong bearing the same logo and trademark of Visa and MasterCard, cardholders of which are supposed to enjoy similar services all over the world. However, to increase their competitiveness and enable them to stand out the crowd, individual banks will add into different features to the products and make them known to the market through mass media advertising. Such differentiation in product features may include higher credit limit, longer interest-free period, larger ATM network, free magazine, gift item or insurance scheme for purchased items.

Product differentiation may also be in terms of the product image. Such image is actually derived from image of the card issuing banks. The behaviour of consumer is to apply for a card from the bank which he considers having an image consistent with his self-image. Therefore, foreigners or yuppies tend to get a card issued by banks like Citibank or Chase, China traders tend to obtain a card from Nanyang and majority of the rest get a card from Hong Kong Bank.

In China, due to limited number of card issuers, this factor does not have any effect in influencing the market strategies adopted by various card issuing banks, unlike the situations in Hong Kong nowadays.

c. Conditions of entry

Huge investment is needed if full range of credit card services are to be provided. Bank has to invest on the internal software and hardware as well as to consider computer interface with merchants, overseas issuers as well as international organisations for credit checking and settlement. In addition, human resources which include system people, credit analyst, authorizer, marketing sales people, accountant and credit collector. For smaller banks, they may not be able to afford such huge set-up cost and therefore some will only involve in either card issuing (such as Belgian Bank and BNP) or merchant acquisition business (such as acquisition of MasterCard vouchers by Citibank).

Banks issue cards through an independent processing

centre is also an alternative for smaller banks such as Union Bank of Hong Kong to provide card services to its clients. In Hong Kong, Nanyang takes up the credit card processing job for seventeen banks is a typical example. Such conditions of entry will have direct impact to the product strategies of issuing banks and hence will affect their market performance.

In China, despite similar problems are faced by card issuing banks, lots of assistance and support are given by Visa and MasterCard International with the objective to open up the credit card market in China. In addition to this, in view of the large geographic coverage of China, to make the card popular and accept in every part of China, sufficient support by a large network of branches is a necessary condition. Such conditions of entry will limit the competition to large banks only.

d. Vertical Integration

Banks usually began the business with card issuance and then extended to merchant business. When a significant cardholder base has been gained and the operation system is running smoothly, the bank usually will consider to provide enhanced travel and entertainment service to its vital customers. Examples of such services are global services, emergency card replacement, cash advancement services and travel insurance package. In the past few years, card issuers depended on external suppliers to provide merchan-

dising services and mail order services to their cardholders. With more emphasis is being placed on product differentiation, some banks set up merchandising section to handle such services by themselves. Such forward vertical integration is a phenomenon resulting from intense competition.

Horizontal integration is also common in credit card business. Some banks, like Hang Seng Bank, Citibank and Hong Kong Bank in order to fully capture the credit card business of a particular merchant and to fully utilize their existing resources, will issue in-house credit cards for such merchants. Examples are Sogo Card (issued by Citibank), Daimaru Card (issued by Hang Seng Bank) and Dragon Seed Card (issued by Hong Kong Bank).

Presently, banks in China only involved in the issuance of local cards, the merchant business is still not fully taken up by them. However, upon the completion of the installation of the system network, it is expected that the banks will take up the merchant business later this year.

Such integration will give explanation to the difference in strategies, performance and profits of card business in Hong Kong and China.

Market Conduct

The market conduct of a bank involves its pricing, product, promotion, distribution and innovative strategies as well as its legal constraints. The conduct is influenced directly both by the environmental and market structure

conditions.

a. Product Strategy

Product nature are different in both areas. With a revolving credit given, credit cards issued in Hong Kong are supposed provide additional convenience to cardholders. However, due to keen competition, banks try to build up lots of product differentiation including brand image, card face design, services provided and target segments.

b. Pricing Strategy

Although demand elasticity is low in Hong Kong, price elasticity is high for credit card in Hong Kong. This can be justified by seeing that when banks launch their card products free of charge, applications are money and brand switching is also great during that period. Furthermore, banks charge a rather high interest rate on past due payment, the purpose is to discourage cardholder to defer payment. The main function of credit card is to provide convenience but not a personal loan to holders. In China, the objective of running credit card is to absorb deposit, hence a penetration pricing strategy is used with the aim to get a large cardholder base in a short period of time.

Promotion Strategy

In China, due to limited budget, head-office of Bank of China cannot afford to spend much in card promotion. Only smaller scale promotions are carried out by Visa/MasterCard International and by individual branches of Bank of

China on local level. Most of the promotion is done through personal selling by staff of the banks in each branch.

In Hong Kong, the situation is entirely different. Not only individual banks try to convey their product advantages through media, but MasterCard and Visa International also launch generic advertising to promote the trademark as a whole.

Distribution Strategy

In Hong Kong, the distribution channels are extensive. Bank branches, department stores, ferry piers, shopping arcades as well as shops which open 24-hour are selected to display application forms. Since Hong Kong people is rather busy, it may be difficult for them to get a form during office hour but it may not be the case during their transportation or shopping time.

In China, since to display forms in other outlets involve costs, forms are only displayed in bank's branches. For ICBC, some of its branches even open in Sunday, people will get the application forms easier.

e. Research Development and Legal Tactics

A lot of research and development work has been devoted to enhance the electronic services of the credit card as well as to prevent fraud. Installation of on-line data capture terminals and encoding of a special value on the magnetic stripe are examples. In China, research and

development effort is currently limited to improvement of telecommunication system. Banks in both areas are now working together to fight against credit card crimes. Seminars are conducted jointly to educate merchants the proper card acceptance procedure. The caught of an over-spending Hong Kong cardholders in China last month is a successful example.

Market Performance

The market performance is quite satisfactory in both areas. More than 1.5 million and over 200,000 cards are issued in Hong Kong and China respectively. Both the banks, merchants and cardholders can get benefits from the business.

However, in Hong Kong, despite the fact that there is still 37% target market not being exploited, those who got a card holding 1.3 cards on average. In terms of allocation of resources, there may be some duplication. Competition is on re-distribution of market share but not on expansion of the market potential.

In term of technological progressiveness, with the installation of credit authorization and data capture terminals, expansion of international ATM network and interface of computer, banks in Hong Kong have achieved a high technical standard. China is still in her developing stage.

CHAPTER VI

CONCLUSION AND FUTURE DEVELOPMENT

After having a review, analysis and comparison on the historical development, operation system, marketing strategies, strength, weakness, opportunities and threats of the credit card business in Hong Kong and China, it can be concluded that there do exist differences in the card business in Hong Kong and China. The hypothesis is proved to hold. However, when the results of interviews, research (both primary and secondary) are consolidated, the future development of business in both areas can be summarized as follows:

Increased Competition but also Co-operation

It can be foreseen that competition will be more intense in both areas. With the joining of new member banks, it is estimated that there will be three more new card issuers in Hong Kong and five new issuers in China this year. Various promotional strategies will be expected to prevail in the market. Competition is not only on getting new cardholders but also on stimulating the card usage of

existing cardholders. On the other hand, more co-operation can also be foreseen. Especially in Hong Kong, with the rising number of fraudulent and counterfeit card cases, banks are more likely to co-operate together to fight against such crimes. Examples of joint effort include taking preventive measures on card encoding and embossing and organising of merchant education program altogether. In addition, a central database is going to be established through a third party to provide a channel for banks to share credit information concerning both applicants and merchants among themselves. Furthermore, generic advertising program which is organised by International Organisation to promote the trademark but sponsored by all individual issuing banks is also another example of co-operation. The aim of the program is to unite the banks together to compete with American Express and Diners Club.

Strengthen the Bank and Electronic Services

In China, more banking services will be developed and included into the card products to increase its competitiveness. It is estimated that more ATM will be installed and additional services such as free remittance of money from credit card account to bank account. In Hong Kong, with technological advancement, more innovative electronic services will be provided. As mentioned before, the availability of getting cash from over 60,000 Visa ATM all over the world and installation of data capture terminals at

merchant locations are such examples. Smart card, which has been very popular in Japan and France, is a plastic card with a silicon chip on it for storage of personal financial data and can be accessed by different banks or companies. Payments of taxes, utility bills or credit card spendings can be made through Smart card.

Since issuance of such Smart card is largely dependent on the availability of the card reading terminals in the market. In the present stage, they are still very costly but it is forecasted that, this product will be the focus of development in future.

Expansion of Integrated Business

In China, with the experience gained from card issuance, banks will consider taking up the acquisition business as well. Under the present system, they only act as agents for banks in Hong Kong and the major share of the profits goes to latter. Whenever the system is being set up, time for China to run such part of business by herself comes. The decision is further justified by the ever increasing volume due to increase number of businessmen and tourists in recent years.

In Hong Kong, joint issuance of affinity card with large merchants is becoming one of the methods to maintain close relationship with merchants and a tool to obtain the major share of their card voucher acquisition business. Some banks may even further take up several of the related

business such as merchandising, mail order and hotel and air ticket booking services so as to provide more services to their cardholders. By extension to such services, banks not only widen their services varieties but also develop sources to generate revenue.

Enhancement of Global Services

In China, the future focus will be on promotion and enhancement of services throughout the whole country. Shipment of purchased goods and transference of money for cardholders as well as promoting the acceptance of the cards for both purchase and cash withdrawal are the examples.

In Hong Kong, to improve the service quality, global services such as emergency card advance and card replacement services are giving more and more attention. Competition will no longer be on advertising and promotion gimmicks but on service quality such as availability of flexible credit limit and air tickets and hotel room reservation services as well.

--- END ---

APPENDIX I

Historical Development of Visa and MasterCard

Bank Cards In the 1950's

- 1914 Western Union was the first company to issue a simple metal plate. Preferred customers were offered special services such as deferred payment service.
- 1915 Several hotels, department stores, oil companies and railroads were also issuing 'metal money' to preferred customers.
- 1924 General Petroleum Corporation of California was the first to issued a gasoline credit card to its employees and selected customers.
- 1950 Diner's Club issued the first 'travel and entertainment' card which gave a delayed payment device requiring full payment of all posted charges at end of each monthly cycle.
- 1951 Franklin National Bank of Long Island issued the first bank card. When merchant submitted sales slips, the bank would deduct a discount for its service before credited the total amount to the merchant's account.
- 1953 Nearly 100 banks had entered the field. No annual fees or financial fees were charged. Credit was offered without extended payments.
- 1958 American Express issued its international card and

Bank of America issued the Bank America Card with the goal of increase the volume of business by broadening the consumer base to the entire state.

Bank Cards in the 1960's

1966 * Bank of America established a national licensing organization, BankAmerica Service Corporation, to sell licenses to banks to issue BankAmericard to their customers. By the end of the year, eight banks outside California were issuing BankAmericard Cards.

* four large Chicago banks formed the Midwest Bank Card Association, creating the first regional credit card.

* 14 eastern banks formed an interchange association called Interbank to make their cards competitive with BankAmericard. Members issued their individual cards with an original design and a lower case 'i' in the corner to identify it as an Interbank card. At the same time, Bank of America gave up the licensing program and became a member bank of NBI.

1967 Western States BankCard Association (WSBA) were formed by four California banks with the introduction of MasterCharge program with the aim to fight against the obviously successful BankAmericard. WSBA later sold the MasterCharge name to Interbank. All members began using the name Master-

Charge in their card products.

1968 A trend began towards centralized bank cards. Many of the independent card programs and regional association already in operation began converting to either BankAmericard or MasterCard.

Bank Cards in the 1970's

1970 National BankAmericard Incorporated (NBI), an independent, joint-venture organisation equitably owned by financial institutions was formed to administer, promote and further develop the BankAmericard program throughout the United States. Members agreed to comply with the By-Laws and Operating Regulations, and funded NBI with fees based on sales volume and the use of network services.

1973 NBI offered computerized authorization services to its U.S. members through the Base I Authorization System. In 1974, the Base II Electronic Data Transmission System was implemented.

1974 In order to unite countries and organisations operating under different legal principles and banking structures, a multinational membership corporation IBANCO was formed.

1975 NBI introduced a debit card program to debit card holder's account directly which attracted more member banks to issue cards.

1977 As worldwide expansion of the BankAmericard grew, the name of the card was meeting some resistance

in several countries. Many banks did not want to issue a card associated with the Bank of America. In 1977, the card name was changed to Visa. NBI was renamed Visa U.S.A. and IBANCO became Visa International.

Bank Cards in the 1980's

- 1982 Visa launched the Premier Card Program to upgrade the services provided. Automated Cash Disbursement Service was implemented in the same year.
- 1983 Visa developed the new card security features to fight against the increasing credit card crimes. Global ATM network was initiated too.
- 1987 America Express, previously only issued Travel and Entertainment card, started the issuance of Optima, a card that with revolving credit line, partial and deferred repayment facilities with interests charged. This meant a direct competition with the bank card.
- 1988 Visa and MasterCard launched the Corporate/Business Card and Affinity Card Program.

APPENDIX II

Development of Credit Card Business in Hong Kong

- 1959 Diner's Club issued the first credit card.
- 1974 Bank of America (BOA) and Bank of East Asia (BEA) jointly operated the Bank Americard Centre in Hong Kong.
- 1975 BOA and BEA issued East Asia Bank Americard Card. Bank of America is responsible for cardholder business and Bank of East Asia is responsible for the merchant business. Overseas Trust Bank issued OTB Card in the same year.
- 1976 Hong Kong Bank, being a member of the Interbank Card Associated started issuance of MasterCharge.
- 1977 Bank Americard was renamed Visa.
- 1978 Sun Hung Kai Bank Limited joined Visa International as member to issue Visa card. America Express entered the market in that year too.
- 1979 Hong Kong Bank and Chartered Bank started issuing Visa card.
- 1980 Banque Nationale de Paris issued Visa card but did not involve in merchant business which meant that the bank only issued cards but did not collect and settle credit card sales vouchers for the merchants which accepted credit card as a means of payment for transaction.
- 1981 Hang Seng Bank issued Visa card, JCG Finance

Company Limited issued JCG card and Nanyang Commercial Bank Limited issued Federal card. Federal Card is a local credit card which is accepted in Hong Kong, Macau and China only.

1982 Shanghai Commercial Bank issued Visa card.

1983 Bank of America issued Visa card to students.

1986 Nanyang Credit Card Company Limited issued the Federal-MasterCard through Nanyang Commercial Bank Limited. Hong Kong Bank took up the acquiring business of JCB in Hong Kong. Belgian Bank issued MasterCard but did not involve in merchant business.

1987 Standard Chartered Bank and Ka Wah Bank issued the MasterCard and Federal-MasterCard respectively. Jointed issuance of Federal-MasterCard by all member banks of Bank of China Group was also took place later in this year. Chase Manhattan Bank issued Visa card but did not engage in merchant business. Hang Seng Bank issued Fortune Card. Citibank took up the Bank Americard Centre and started to issue Visa card but again, not involving into acquiring business. Bank of East Asia was forced to run the merchant acquiring business independently.

1988 Bank of China Group and Ka Wah Bank issued Federal-Visa Card. International Bank of Asia (IBA) issued 'My Card' and Bank of East Asia set up its

own card centre. Hang Seng Bank also issued its local Fortune-MasterCard in this year.

1989 Standard Chartered Bank issued Visa card with new card design, IBA issued MasterCard affinity cards for several big merchants such as Jusco Department Store, Morning Star Travel Service Company Limited and Grand Hotel.

1990 The Hong Kong Chinese Bank issued University Card and MasterCard but did not involve in merchant business. Chase Manhattan Bank issued its MasterCard and Bank of Credit and Commerce issued Visa card (affinity with 'Thorn'). Security Pacific Bank and JCG Finance Company Limited joined Visa and MasterCard International as members respectively.

1991 Citibank is going to issue MasterCard. The Visa Generic Advertising Campaign will be launched throughout the year. The campaign is sponsored by all the Visa card issuers in Hong Kong with the aim to promote Visa card product as a whole. It is the first time that the business is carried out with such kind of joint marketing effort. It is expected that a similar action to promote MasterCard will follow later this year.

APPENDIX III

Development of Credit Card Business in China

- 1979 Bank of East Asia represented Bank of Americard Centre to bring credit card business into China. Bank of China (referred as BOC) acted as the agent of the card companies in Hong Kong by collecting the Visa and MasterCard sales vouchers from merchant shops in China and transferred them to Bank of Americard Centre for processing. Since such procedure involved three parties, namely, the merchant, branch of Bank of China and credit card companies in Hong Kong, operating costs were high for the credit card transaction occurred in China. Therefore, merchants that accepted credit card as payment means would be charged by card companies a rather high commission rate, that is, four percent of the transaction amount, thus causing a slow development of credit card business in China.
- 1980 Hong Kong Bank followed Bank of East Asia to enter into the China Market.
- 1981 Nanyang Credit Card Company Limited, a subsidiary of Nanyang Commercial Bank Limited which is one of the member banks of today's Bank of China Group, signed agreement with Bank of China to appoint the latter as agent in collecting the Federal Card

sales vouchers. In addition, Bank of China also provided cash advance services to Federal Card holders.

1984 Bank of China acted as agent for Nanyang Credit Card Company Limited to collect and submit MasterCard sales vouchers as well as to provide cash advance services to all MasterCard holders.

1986 BOC acted as agent for Nanyang Credit Card Company Limited to collect and submit Visa Card sales vouchers as well as to provide cash advance services to all the Visa Card holders. Having got several years' experience in handling credit card business for banks in Hong Kong, in June, several individual branches of BOC in China tried to issue the local Great Wall Card, a credit card that was popular throughout China only.

1987 Bank of China joined MasterCard International Inc. as principal member and started to issue the Renminbi Great Wall MasterCard which is accepted by merchant as either Great Wall Card or MasterCard but is welcome in China only. BOC even converted all of the local Great Wall Card issued previously to Renminbi Great Wall Card.

1988 In addition to the Renminbi Great Wall Card, BOC also issued Foreign Exchange Great Wall Card, the settlement currency of such card is foreign exchange. Up to now, only Guangzhou, Shanghai, Tianjin, Beijing branch and the head office of the

bank are allowed to issue Foreign Exchange Great Wall Card. In November, BOC joined Visa International as principal member too and issued Foreign Exchange Visa Card.

1989 BOC was no longer monopoly in running credit card business in China, Industrial and Commercial Bank of China (ICBC) started the issuance of a local card, the Peony Card, throughout 32 cities of China. Today, 2,000 merchants and 1,000 saving institutions accept the card. There are now 30,000 Peony Card holders, and monthly transactions have reached Renminbi (RMB) 20 million.

3/1990 People's Construction Bank of China joined Visa and MasterCard International as principal member to start the card issuance business. It also signed an agency agreement with Standard Chartered Bank in Hong Kong to collect and submit Visa and MasterCard sales vouchers to that bank.

7/1990 China International Trust and Investment Corporation (CITIC) joined Visa International as associated member of Nanyang Credit Card Company Limited to start its own Visa Card merchant business.

10/1990 Industrial and Commercial Bank of China (ICBC) joined Visa and MasterCard as principal member too. Since ICBC is the largest retail bank in China with 30,000 branches and more than 480,000 employees, it is believed that the bank has great

potential in card issuance.

1990 Bank of Communications in China also joined Visa International as principal member.

2/1991 The Agricultural Bank of China was the sixth bank in China to involve in credit card business. It joined both Visa and MasterCard International as principal member.

APPENDIX IV

Questionnaire Design

Dear Sir,

I am a student of The Chinese University of Hong Kong studying for the master of Business Administration degree. Presently, I am working on a Research Paper concerning the ways of running credit card business in China, therefore I would be most grateful if you could provide me information concerning card operation of your Bank by filling in the enclosed questionnaire.

I am not interested in any of the confidential or sensitive data but general information on ways of operating a credit card system with respect to card approval, customer service, authorization, settlement, security control and marketing as a whole. Hence some of the questions are designed in such a way that you may answer optionally.

I would appreciate if you could complete and return the questionnaire with the enclosed envelope to me as soon as possible. Should you have any queries, please feel free to contact me. I can be reached at:

Address: 3/F., Nan Dao Bldg.,
361 Queen's Rd. C.,
Hong Kong
Telephone: xxxxxxxx (Day)
xxxxxxxx (Night)
Telex: 62255 NCBFC
FAX: 5415415

Thank you for your kind attention and I look forward to having your inputs in my research.

Yours faithfully,

Questionnaire to Bank in China

(I) BACKGROUND INFORMATION

1) When did your bank start the credit card acquiring business?

2) When did your Bank join VISA International and MasterCard International Inc. as membership?

VISA : _____(year)_____(Month)
Type of Membership: ()Principal ()Associated ()Others

MasterCard : _____(year)_____(Month)
Type of Membership: ()Principal ()Affiliate ()Others

3) The reasons that your Bank joined these organisations are:

VISA _____

MasterCard _____

4) (This is an optional question. You may jump to next question if you are not willing to disclose the following information.)

The total number of cards issued by your Bank is

<u>VISA</u>	<u>Qty</u>	<u>up to</u>	<u>MasterCard</u>	<u>Qty</u>	<u>up to</u>
		(yr/month)			(yr/month)
Gold	_____	_____	Gold	_____	_____
Classic	_____	_____	Ordinary	_____	_____
Affinity	_____	_____	Affinity	_____	_____
Corporate	_____	_____	Business	_____	_____
Other	_____	_____	Other	_____	_____

5) How many branches of your bank are now providing Credit Care Services? What are they?

	<u>Number</u>	<u>Name of branches</u>
Acquiring Business:	_____	_____
Issuing Business:	_____	_____

6) Does your bank issue any local card? Y/N (If no, jump to Section II)

Area of acceptance_____

Name of Card _____

Qty of Card issued_____

Services included _____

Application requirement_____

(Following sections only applied to the Visa and MasterCard Card issued by your bank)

(II)OPERATION

A. Card Application & Approval

a Requirement of application:_____

b Credit Limit Criteria:_____

c Required Documentation:_____

d Sources of getting applicants:

(Please put a "✓" where appropriate)

() TV, newspaper, magazine

() Direct Mail

() Bank branches referral

() Promotion Programs (please specify:_____)

() Take-One in banks/merchant outlets

() Others (please specify:_____)

e Fee structure of Visa and MasterCard is:

	<u>Visa</u>	<u>MasterCard</u>
Joining Fee	_____	_____
Annual Fee	_____	_____
Renewal Card Fee	_____	_____

B. Customer Service

a What are the benefits of your card?

- ☐ Member news
- ☐ Linkage with Bank's ATM network
- ☐ Lost Card Insurance Protection Program
- ☐ Travel accident Insurance Scheme
- ☐ Cash Advance Facilities
- ☐ VISA Net/MasterTeller Service
- ☐ 24-hour Card replacement Service
- ☐ Global Assistance Scheme
- ☐ Annual Fee Discount Program
- ☐ Others_____

b What is the lost card reporting procedure? What type of documents should cardholder provide before a replacement card is issued?

c How is the new or renewed credit card delivered to cardholder?

- ☐ by ordinary mail
- ☐ by registered mail
- ☐ pick up at bank branches
- ☐ pick up at card centre
- ☐ delivered through bank staff
- ☐ others_____

d What is the longest expiry of the card issued by your bank?
_____years card

e What are the special services available to Gold Cardholders?

- ☐ higher spending limit
- ☐ global assistance scheme
- ☐ greater insurance package
- ☐ others_____

C. Authorization

a Please link item [a] [b] [c] together to show the channel of obtaining an approval code.

e.g. [ATM machines]----[on line computer]----[host computer]

[a]Services	[b]Incoming channel	[c]receiving channel
() ATM Machine	Telephone	Telephone to your Bank Authorization centre
() Merchant	CAT	Host computer
() Other local issuers	Telex	Card centre's telex machine
() Int'l issuers	Fax	Card Centre's fax machine
() Affiliate/ associated member	On-line computer	MasterCard/ Visa International system

b What is the business hours for your authorization centre?

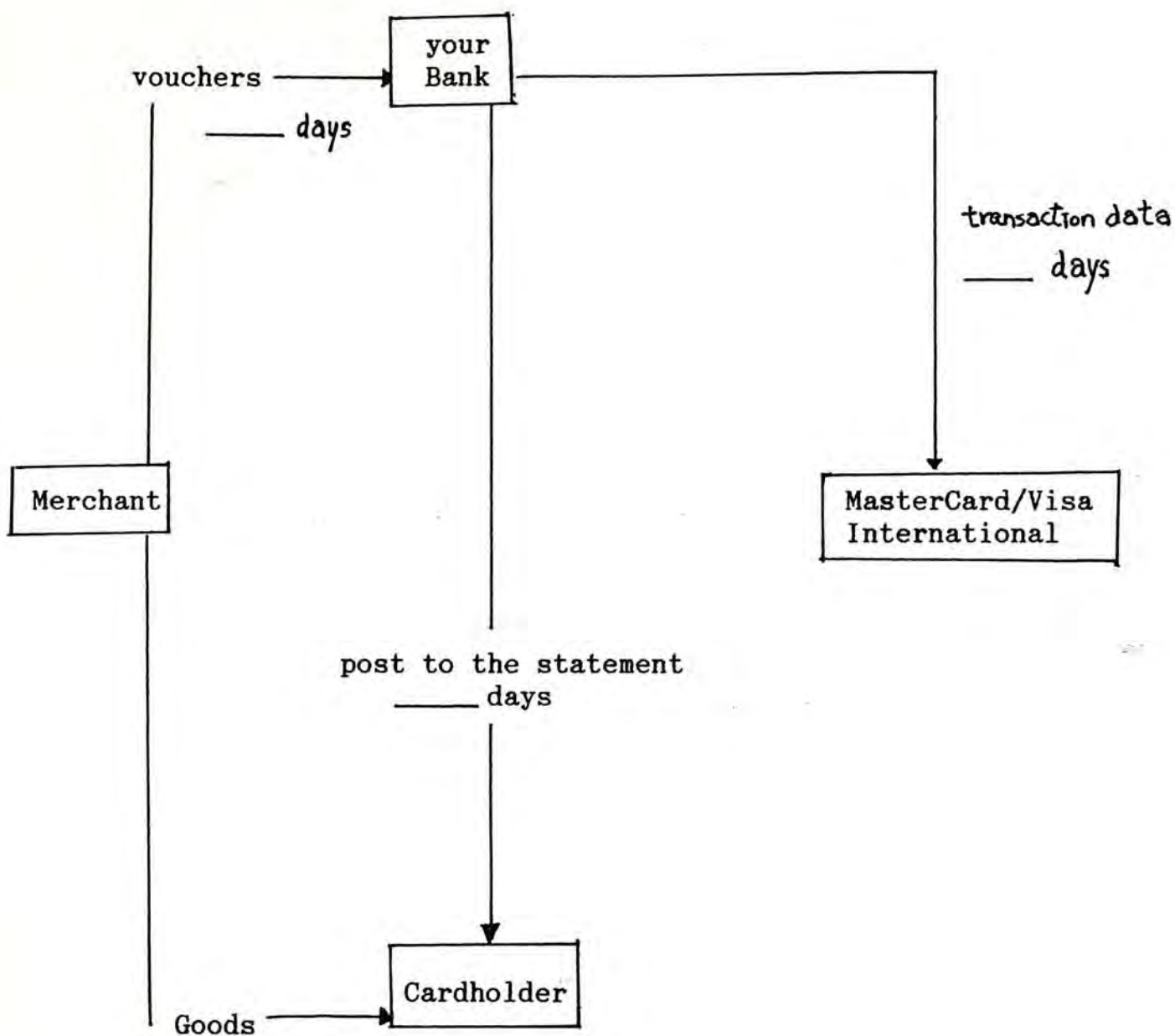
_____ hours a day
_____ days a year

c What is the authorization channel when your centre is off-line?

d How does authorization take place among branches in various cities of China?

D. Settlement & billing

a Please fill in the number of days for the following flow of settlement and billing:



b 1) Would there be any interest/penalty charge imposed on Cardholder with deferred payments? Y/N (If no, jump to part c)

2) What is the interest rate?_____

3) How is it calculated?_____

4) What are the other penalty charges?_____

5) How are they calculated?_____

c What are the methods to settle credit card payments?

- () Direct debit from bank accounts
- () Cheque/money order
- () Cash at branches of the bank
- () ATM Transfer
- () Telephone Transfer
- () Others_____

d 1) Is the Cardholder allowed to make partial payment? Y/N
(If no, jump to question e)

2) What is the minimum partial payment requirement?

3) What is the difference between making full payment and partial payment?_____

e 1) Would you send out statements of all your Cardholders at the same time? Y/N

2) If not, how many batches do you divide to do so monthly?

E Bad Debt Collection

a What is the bad debt percentage of your Cardholders when compare with the total outstanding per annum?_____%

b What are the collection channels?

- () Referral bank's staff
- () Collection agency
- () Card centre's own staff
- () Computer (artificial voice collection)
- () Others_____

c Means taken by your Bank to collect bad-debt are:

- () telephone warning
- () written warning
- () personal contact
- () legal action
- () others_____

- d When does the initial warning take place?
(e.g. past due for 2 weeks)
-

(III) CARDHOLDER MARKETING

- a How much would your bank spend on marketing programs of recruiting Cardholders annually?_____
-

- b What are the marketing strategies adopted by your bank in the past 3 years to recruit cardholders?

- () TV advertising
- () newspaper advertising
- () point-of-sales advertising
- () directing mailing
- () take-one box
- () free gift
- () lucky draw
- () free magazine
- () annual free benefit
- () bonus point scheme
- () mail order services
- () cash disbursement services
- () free insurance
- () card design
- () issuance of affinity card
- () market segmentation
- () member-get-member scheme
- () staff-get-member scheme
- () others_____

- c What is the growth rate of your Cardholder base?_____%

(IV) MERCHANT MARKETING & SETTLEMENT

- 1 How many merchants do you have which submit the VISA/Master-Card vouchers to your bank? (optional)

VISA:_____ merchants with totally _____ branch shops

MasterCard:_____ merchants with totally _____ branch shops

2 How do you acquire merchants?

- () Through a team of own salesmen
- () Through referrals from branches (bank's clients)
- () Through letters of invitation
- () Through an outside merchant signing Company
- () Others_____

3 What are the marketing strategies used to attract merchants?

- () prompt payment means
- () prompt vouchers collection methods
- () advertising support
- () joint promotion program
- () on-line settlement
- () on-line authorization
- () released floor limit
(i.e. below a certain transaction amount, no need to obtain authorization approval)
- () free credit cards given to directors of the shops
- () Affinity Card program
- () lower discount rate
- () bonus scheme
- () others _____

4 What is the average commission that merchant has to pay you for settlement of sale vouchers? _____% of the transaction amount

(V) SECURITY CONTROL

1 Is there a department in your bank responsible for the prevention and investigation of Credit Card fraud activities? Y/N
(If no, jump to question3)

2 How many people are there?

3 What is the required information a merchant must provide to obtain an approval code from your Bank?

- () merchant number
- () merchant name
- () merchant telephone number
- () card number
- () name of card issuing bank
- () expiry date
- () transaction amount
- () types of Goods purchased
- () name of people making the call (merchant)
- () others_____

4 What are the security measures taken to prevent fraud card activities?

- () New Card design with holograms
 - () Last digit of Card number being a check digit
 - () Certification Verification Value (CVV)
 - () Card number imprinted at the back of the Card
 - () Credit Authorization Terminals displaying the information on the magnetic stripe
 - () Counterfeit card insurance program
 - () Lower the floor limit for high-risk merchant
 - () Share information among local issuers
 - () Conduct merchant education programs
 - () Co-operation with police in sharing information
 - () Internal authorization control
(e.g. daily control for over-spending)
 - () Others_____
- _____
- _____

(VI) DEVELOPMENTAL HISTORY

Please list down in the followings the development history of your bank's Credit Card business in chronological order. (Including both international and local cards)

Year

Events

(VII) SWOT ANALYSIS

1. In your opinion, what are the factors in your Bank and your country that help the development of your card business?

Your Bank: _____

Your Country: _____

2. What are the factors in your country and your Bank that hinder the development of your Card business?

Your Country: _____

Your Bank: _____

3. How would your Bank react to these difficulties?

(VIII) FUTURE DEVELOPMENT

What will be the future development of Credit Card business in your Country and in your Bank?

Your Country: _____

Your Bank: _____

(IX) PERSONAL DATA

INTERVIEWEE: _____
TITLE: _____
JOB DUTIES: _____
NAME OF THE BANK: _____

****END****

Thank you very much for your co-operation!

I would be grateful if you could return the questionnaire with following materials:

- (1) Application forms
- (2) Member news
- (3) Booklet with merchandising service
- (4) Copies of advertisements
- (5) Merchant pamphlets
- (6) Customer instruction guide
- (7) Gold Card member service guide

敬啓者：

本人乃香港中文大學學生，現修讀三年制工商管理碩士兼讀課程。現擬研究中國信用卡業務的發展，故極希望 貴行能提供有關的資料，以能完成是項研究。

隨函附上問卷乙份，本人只希望通過是項問卷探討 貴行在審批、客戶服務、授權服務、結算、保安控制、市場推廣幾方面經營信用卡的一般經驗及做法，對部分較敏感的題目， 貴行可選擇不作答。問卷可以隨函的回郵信封退回本人收取。

如 貴行有任何疑問，請隨時與本人聯絡，聯絡資料如下：

地址：香港皇后大道中361號南島商業大廈四樓

電話： 853 8825 （日）

897 6777 （夜）

電傳： 62255 NCBFC

傳真： 5415415

對 貴行的鼎力支持，本人感激不盡！

此致

_____銀行_____分行

香港中文大學學生

梅月嫦 謹啓

一九九一年 月 日

導師：香港中文大學市場推廣學系

蘇麗文小姐

銀行信用卡問卷調查

第一部份：背景資料

(1)請問 貴行何年開始發展信用卡收單業務？_____

(2)貴行何時加入VISA及萬事達卡國際組織成為會員？

VISA: _____年____月 會員形式: ☐基本會員 ☐聯系會員 ☐其他

萬事達卡: _____年____月 會員形式: ☐基本會員 ☐聯系會員 ☐其他

(3)貴行參加上述國際信用卡組織為會員的原因為：

VISA: _____

萬事達卡: _____

(4)(此題可自由作答。如貴行不便提供有關資料,可跳至下題)

貴行總發卡數為：

VISA	數量	截至	萬事達卡	數量	截至
金卡	_____	_____	金卡	_____	_____
普通卡	_____	_____	普通卡	_____	_____
聯營卡	_____	_____	聯營卡	_____	_____
公司卡	_____	_____	公司卡	_____	_____
其他	_____	_____	其他	_____	_____

(5)貴行有多少分／支行有辦理信用卡業務？哪幾間？（如不適用,可跳答下題）

數目 分支行名稱

收單業務: _____

發卡業務: _____

(6)貴行有否發行本地信用卡? 有/無(如無,可跳至第二部份)

信用卡名稱:_____

流通地區:_____

發行時間:_____

發行數量:_____

提供的服務:_____

申請條件:_____

(以下部份只適用於 貴行發行的VISA及萬事達卡)

第二部份:操作情況

一)信用卡申請及審批

1、申請條件:_____

2、信用限額準則:_____

3、要求文件:_____

4、申請表來源(請在適當地方加上“✓”號):

☐電視、報章、雜誌

☐直銷

☐分/支行推薦

☐在分行或特約單位放置申請表

☐推廣活動(請註明:_____)

☐其他(請註明:_____)

5、VISA及萬事達卡的收費為:

VISA

萬事達卡

入會費: _____

年費: _____

轉期費: _____

二)卡戶服務

1、貴行的國際信用卡有何好處?

☐印發會員訊息

☐信用卡可於銀行自動提款機上使用

☐失卡冒用保險保障服務

☐旅遊意外保險保障

☐提取現金服務

☐VISA/萬事達卡全球櫃員機服務

☐24小時補發失卡服務

☐全球支援服務

☐年費優惠計劃

☐其他_____

2、報失卡手續如何：_____

補發失卡需辦何種手續：_____

3、新發或轉期的信用卡如何送至卡戶手中？

☐一般郵寄

☐掛號郵寄

☐往卡中心取

☐由銀行職員轉送

☐往銀行的分／支行取

☐其他_____

4、貴行發行的信用卡最長的到期日為_____年

5、金卡有何特殊服務？

☐較高信用額度

☐全球支援服務

☐較大保險保障

☐其他_____

(三)授權服務

1、請將下列甲、乙、丙三項串聯以顯示 貴行的各項授權渠道

甲、要求取授權者

乙、發出要求的渠道

丙、卡中心接收渠道

櫃員機

電話

電話授權

特約單位

授權核卡機

電腦主機

本地其他
發卡銀行

電傳

電傳機

國際發卡行

圖文傳真機

圖文傳真機

聯系會員

聯綫電腦

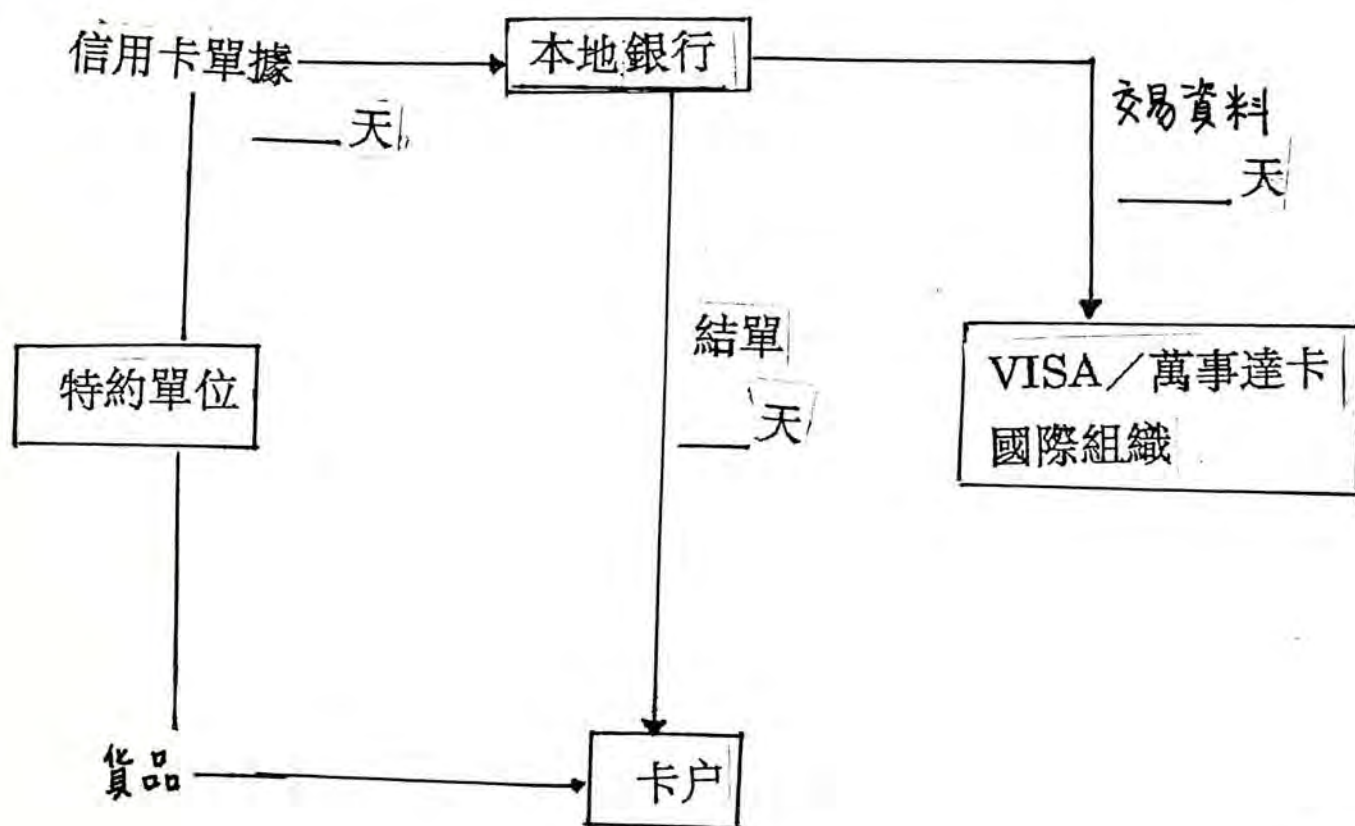
VISA／萬事達卡
國際組織電腦系統

- 2、貴行授權部的辦公時間為每年_____天,每天_____小時。
- 3、在貴行授權部的非辦公時間內, 貴行用何種方法提供授權服務?
- _____
- _____

- 4、貴行與各分／支行之間的授權服務如何進行?
- _____
- _____

四) 結算及收款

- 1、下列為信用卡的結算流程圖,請填上 貴行在有關流程上所需的付款及收帳天數:



- 2、 ①如卡戶遲交款項,會否徵收罰款或利息? 會／不會(如不會,跳至第三條)
- ②遲交利息的利率如何? _____
- ③如何計算? _____
- _____
- ④其他罰款如何? _____
- ⑤如何計算? _____
- _____

3、有何途徑繳交信用款項？

☐由銀行自動扣帳

☐支票

☐到銀行分支行繳交現金

☐通過自動櫃員機轉帳

☐電話轉帳

☐其他_____

4、 ①卡戶可否部份付款？ 可／不可（如不可，跳至第5題）

②最低部份付款為_____

③繳交全數與繳交部份款項有何不同？

5、 ①貴行會否同一時間寄出所有卡戶的結單？ 會／不會

②如不會，如何處理？ _____

（五）催收壞帳

1、貴行每行的壞帳率為總消費額的百分之_____

2、貴行所採用的催收途徑為：

☐通過分／支行職員催收

☐聘用催收公司

☐卡公司職員催收

☐電腦自動催收

☐其他_____

3、催收的方式有：

☐電話催收

☐發函警告

☐親身接觸

☐法律行動

☐其他_____

4、遲交多久即開始第一步催收行動？

第三部份： 卡戶推廣

1、貴行每年花費_____於卡戶推廣活動

2、過去三年，貴行曾採用何種方法吸收新卡戶？

- ☐電視廣告
- ☐報章廣告
- ☐銷售點廣告
- ☐直銷點廣告
- ☐申請免費擺放座
- ☐免費禮品
- ☐抽獎
- ☐贈閱免費雜誌
- ☐年費優惠
- ☐累計積分計劃
- ☐郵寄服務
- ☐現金透支服務
- ☐免費保險服務
- ☐卡樣設計
- ☐發卡聯營卡
- ☐市場劃分
- ☐會員推薦會員計劃
- ☐職工推薦會員計劃
- ☐其他

3、貴行的卡戶增長率為_____

四部份：商號推廣

1、貴行現有多少特約單位收信用卡單據？（可自由作答）

VISA: _____間合共_____分店

萬事達卡: _____間合共_____分店

2、貴行如何發展特約單位？

- ☐通過外勤隊伍
- ☐由分支行介紹
- ☐通過發函邀請
- ☐通過其他公司／銀行代為發展
- ☐其他_____

3、貴行採用何種方法招收新特約單位？

- ☐快捷付款方法
- ☐快捷收單方法
- ☐廣告贊助
- ☐聯合舉辦推廣活動
- ☐即時結帳
- ☐即時授權服務
- ☐放寬交易限額
- ☐贈送信用卡予特約單位負責人
- ☐代發行聯營卡
- ☐較低佣金
- ☐累計積分計劃
- ☐其他_____

4、貴行徵收特約單位佣金平均為交易金額的百分之_____

第五部份： 保安控制

1、貴行有否專職部門負責預防及調查信用卡不法活動？

有／無(如無，跳到第3條)

2、該部門有_____人

3、如特約單位要取得授權號，需提供何種資料予 貴行？

- ☐特約單位號碼
- ☐特約單位名稱
- ☐特約單位電話號碼
- ☐卡號
- ☐發卡銀行名稱
- ☐到期日
- ☐交易金額
- ☐交易種類
- ☐特約單位來電人姓名
- ☐其他_____

4、貴行採用何種保安措施以防止不法信用卡行為的發生？

- ☐有鐳射標誌之新卡樣設計
- ☐在卡號最後設有檢驗碼

- ☐核對碼(CVV)
- ☐在卡背亦打上信用卡號碼
- ☐電腦核卡機顯示信用卡磁帶資料
- ☐假卡保險計劃
- ☐對高風險的特約單位降低交易限額
- ☐與本地同業互相交換資料
- ☐舉辦特約單位教育計劃
- ☐與公安局互相交流訊息
- ☐實施內部授權控制
- ☐其他_____

第六部份：發展歷程

請在下列填寫 貴行發展信用卡的歷程(包括國際卡及本地卡)

年 份	事 項

第七部份：形勢分析

1、貴行及國內有何因素推動 貴行信用卡業務的發展？

貴行：_____

國內：_____

2、貴行及國內有何因素不利 貴行信用卡業務的發展？

貴行：_____

國內：_____

3、貴行如何面對上述的不利因素？

第八部份： 未來發展

國內及貴行的信用卡業務將來有何發展？

國內：_____

貴行：_____

第九部份： 私人資料

被訪者姓名：_____

職 稱：_____

職 務：_____

銀行名稱：_____

** 問 卷 完 **

謝謝合作！

如 貴行能隨問卷附下列資料，本人將不勝感激。

- (1) 申請表
- (2) 會員通訊
- (3) 郵購服務的宣傳單張
- (4) 廣告稿樣本
- (5) 特約單位冊子
- (6) 卡戶用卡指南
- (7) 金卡服務指南

APPENDIX V

Background Information of Interviewees

Three people were selected as the respondents of the telephone interviews, they were:

Mr. Allen Tse

Chief Representative, Beijing

MasterCard International Inc.

Mr. Qiao Guo Wei

Manager, Credit Card Division

Head Office, Bank of China

Mr. Yeung Chi Shing

Chief Representative, Beijing Office

Nanyang Commercial Bank Limited

Mr. Allen Tse is responsible for developing of the MasterCard business in China. His duties include to provide merchant education, to act as member consultant and to help in equipment installation. He is therefore very familiar with the market in China. In fact, Mr. Tse gave lots of valuable information in the interview.

Mr. Qiao is a very experienced person in handling credit card business. Ever since China began its card business as an agent to collect sales vouchers for banks in Hong Kong, he has been working with the bank. He had been sent to Hong Kong and U.S.A. for training on management of credit card business. He is also one of staff helping to set up the Visa and MasterCard business in China.

Mr. Yeung, people of Hong Kong but being sent to work in Beijing, is the person who plays the role of a communication channel between Nanyang Credit Card Company Limited and Bank of China, Head Office. Nanyang Credit Card Company Limited has been playing an active role in credit card business in China since early 1980's. Yeung, therefore is able to give comments regarding differences on credit card business in Hong Kong and China.

APPENDIX VI

Interview Question Lists

The questions that were asked in the interview were:

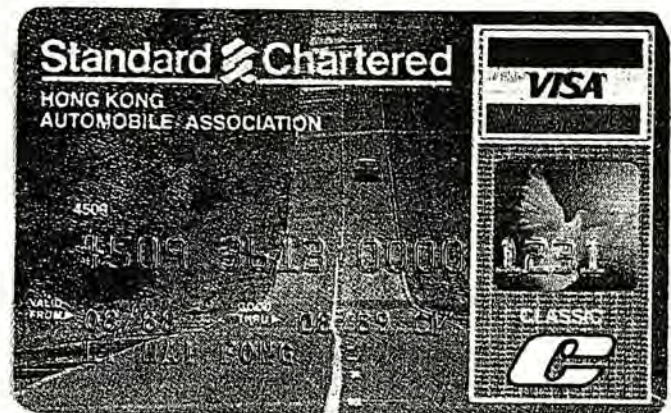
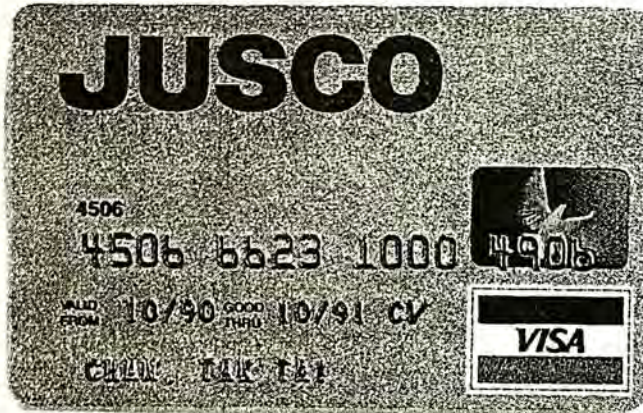
1. Can you tell me the historical development of credit card business in China? When did China start her card acquiring business? When did she start the card issuance business? How was the development of various local cards in China?
2. To your knowledge, what are the reasons that drive China to join international credit card organisations as member?
3. As all know, the telecommunication network in China is not extensive enough to meet the demand, but unfortunately credit card business requires such facilities to exchange for current information. How does international credit card organisations help member banks in China to solve this problem, especially with respect to authorisation (i.e. credit checking), settlement and hot card enquiry?
4. How is the competition in China? During the year of 1987 to 1990, there were altogether 6 banks in China joined the Visa/MasterCard International.

Within three years, the number of competitor increased from zero to six, would this give unhealthy effects?

5. Since China is a large country, to your knowledge, how did the head office of banks in China divide her job duties with her branches in the country with reference to credit card business?
6. How is the problem of fraudulent card usage in China? What measures are taken by the banks to prevent it?
7. What are the problems in running credit card business in China? Do you think there are any difficulties in launching a credit card product originated from a capitalistic country to a communist country? How do banks solve these problems?
8. What are the factors in China that are favorable to the promotion of credit card business?
9. What is the future development of the business in China?
10. Please send me some promotion leaflets, application forms and copies of advertisement by mail or by fax.

APPENDIX VII

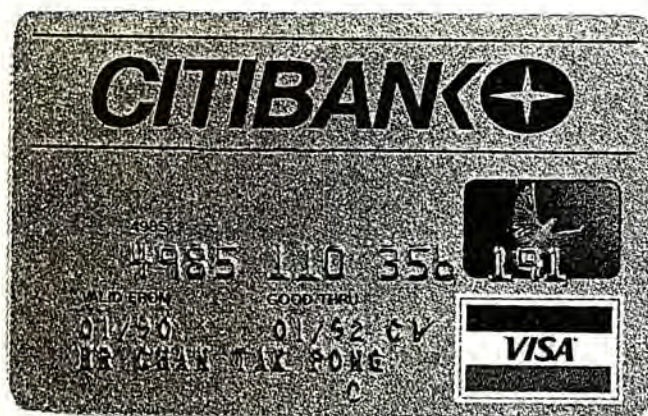
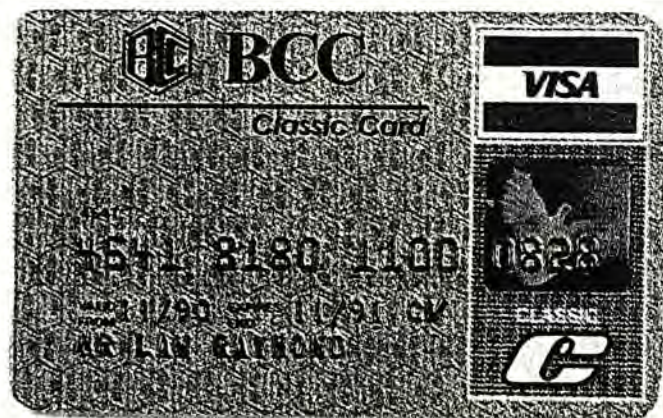
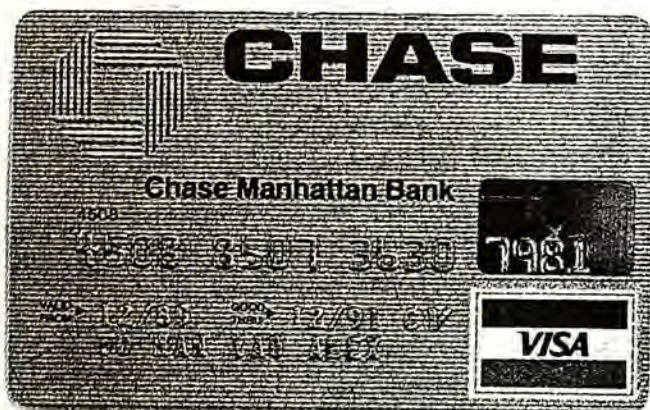
Different Credit Cards in Hong Kong



(a) Examples of Affinity Cards Jointly Issue with Famous Shops



(b) Examples of Cards with Pictorial Card Face Design



Other Normal Credit Cards in Hong Kong

APPENDIX VIII

Different Credit Cards in China

(a) The Local Greatwall Card



(b) The RMB Greatwall MasterCard Issued by Bank of China



(c) The VISA Card to be Issued by Industrial and Commercial Bank of China



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Cao Yan Ming, Representative, Beijing Rep. Office, Nanyang Commercial Bank. Telephone Interview, 23 Feb., 1991

Qiao Guo Wei, Manager, Credit Card Division, Head Office, Bank of China. Telephone Interview, 20 Feb., 1991

APPENDIX VIII

Different Credit Cards in China

(a) The Local Greatwall Card

(b) The RMB Greatwall MasterCard Issued by Bank of China

(c) The VISA Card to be Issued by Industrial and Commercial Bank of China

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